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Is the PRGF Living Up to Expectations? An Assessment of Program Design

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The following symbols have been used throughout this paper:

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;

– between years or months (e.g., 2001–02 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years (e.g., 2001/02) to indicate a fiscal (financial) year.

"n.a." means not applicable.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

Preface

The September 1999 Annual Meetings resulted in a clear mandate for the International Monetary Fund to integrate the objectives of poverty reduction and growth more fully into its operations for the poorest countries and to base these operations on national poverty reduction strategies prepared by the country with broad participation of key stakeholders. Reflecting this new approach, the IMF established the Poverty Reduction and Growth Facility (PRGF) to replace its previous concessional assistance instrument, the Enhanced Structural Adjustment Facility.

At the time the PRGF was established, the Executive Board also called for a review after two years of the initial experience with the new facility. This review was to include feedback and input from officials and others engaged in this work in the field as well as analyses by IMF staff. The review was to take place in conjunction with a parallel joint World Bank–IMF review of the initial experience with the overall Poverty Reduction Strategy Paper (PRSP) approach. This paper synthesizes two papers prepared by IMF staff—*Review of the Poverty Reduction and Growth Facility: Issues and Options* (February 14, 2002) and *Review of the Key Features of the Poverty Reduction and Growth Facility: Staff Analyses* (March 15, 2002)—that focus on PRGF-supported programs and their links to, or relationship with, the broader poverty reduction strategies set out in the PRSPs and Interim PRSPs.

This paper draws on a broad range of internal and external views gathered during the period from July 2001 to February 2002. These include discussions at various regional forums on the PRSP approach during 2001, in which a majority of PRGF countries participated; meetings held with donor government officials and representatives of civil society organizations, including representatives of the donor governments at the Organization for Economic Cooperation and Development's Development Assistance Committee; and the deliberations at the three main sessions on the PRGF at the recently concluded World Bank–IMF International Conference on Poverty Reduction Strategies (January 2002). In addition, this paper takes into account the expressed views of key officials—in member countries with PRGF arrangements covered by the review—in response to a questionnaire structured around the key features of the PRGF (see Appendix II).

A number of IMF staff contributed to the reviews on which this paper is based. Within the Fiscal Affairs Department (FAD), Shamit Chakravarti, Hamid Davoodi, Stefano Fassina, Kevin Fletcher, Eva Jenkner, Hong-Sang Jung, Ali Mansoor, and Erwin Tiongson provided contributions to the paper. Within the Policy Development and Review Department (PDR), contributions were made by Pierre Beynet, Sonia Brunschwig, Andrew Gilmour, Hans Peter Lankes, Lucas Moers, Luzmaria Monasi, Lynge Nielsen, and Laure Redifer. Helen Chin of the External Relations Department (EXR) edited the manuscript and coordinated its production and publication.

List of Abbreviations

CSO	Civil Society Organization
ESAF	Enhanced Structural Adjustment Facility
GFS	Government Finance Statistics
HIPC	Heavily Indebted Poor Country
I-PRSP	Interim Poverty Reduction Strategy Paper
JSA	Joint Staff Assessment
LOI	Letter of Intent
MEFP	Memoranda of Economic and Financial Policies
NGO	Nongovernmental Organization
PEM	Public Expenditure Management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
ROSC	Report on the Observance of Standards and Codes
TA	Technical Assistance
VAT	Value-Added Tax

I Introduction: The Key Features of the PRGF

The creation of the Poverty Reduction and Growth Facility (PRGF) in late 1999 represented the culmination of more than two years of internal and external reviews and IMF policy discussions on the assessment and transformation of the Enhanced Structural Adjustment Facility (ESAF) (Box 1). At the time the PRGF was instituted, it was envisaged that there would be some far-reaching changes in the way the IMF worked to support low-income member countries. First, there would be *a change in the content of IMF-supported programs in these countries*—the programs would be more pro-poor and pro-growth. Second, there would be an increased *emphasis on country ownership* of PRGF-supported programs. And third, there would be *a better definition of the IMF's role* and relationship with other agencies supporting the development efforts of low-income countries. Although much of the structure for the anticipated changes was embedded in the Poverty Reduction Strategy Paper (PRSP) process, specific expectations for PRGF-supported programs were laid out in the *Key Features of Poverty Reduction and Growth Facility (PRGF)-Supported Programs* document (Box 2), which was issued in August 2000 after extensive internal and external consultation.

The PRGF now functions as the IMF's principal instrument to support low-income countries in implementing their poverty reduction strategies. Targets and policies embodied in PRGF-supported programs should emerge from the country's own poverty reduction strategy, as laid out in its PRSP or Interim PRSP (I-PRSP). Key social and sectoral programs and structural reforms aimed at poverty reduction are identified, assigned priorities, and given cost estimates in the country's I-PRSP/PRSP, which are produced in a transparent process involving broad participation from the government, nongovernmental organizations (NGOs), civil society, and donors. The IMF is expected to focus on its core areas of expertise while working with the authorities in the framework of the PRGF-supported program to ensure that these targets can be achieved within a stable macroeconomic environment.

PRGF-supported programs have some features in common (Box 2).

- PRGF-supported programs should be drawn from the country's I-PRSP/PRSP. The overall macro framework for PRGF-supported programs must also derive from and reflect the overall growth and poverty reduction strategy. PRGF-supported programs should indicate how the specific measures supported under the program are embedded within the country's overall poverty reduction strategy. Staff reports for PRGF-supported programs should highlight aspects of the strategy that promote growth through private sector development.
- Conditionality should be selective and should focus on the IMF's core areas of expertise. These will normally cover fiscal, monetary, and external sectors and structural reforms in related areas such as exchange rate and tax policy and issues related to fiscal transparency, budget execution, and tax and customs administration. Conditionality in other areas may be included to the extent that this is critical to achieve the macroeconomic objectives of the program.
- Budgets should be pro-poor and pro-growth. Government spending should be oriented toward poverty-reducing activities and outlays that foster the development of human and physical capital. In order to monitor this shift in the composition of public spending, it will be necessary to improve public expenditure management (PEM) systems (see below). Efforts should be made to improve the efficiency and targeting of spending, and tax reforms should aim at improving both efficiency and equity.
- Fiscal targets should be flexible and allow increases in public expenditures to accommodate the government's poverty reduction strategy within a stable macroeconomic framework. Programs could also be presented in ways that could signal financing needs. Thus, normative macroprojections in PRSPs could be presented as possible alternatives.

Box 1. Evolution from the ESAF to the PRGF

The creation of the Poverty Reduction and Growth Facility (PRGF) in late 1999 represented the culmination of more than two years of internal and external reviews and IMF policy discussions on the assessment and transformation of the Enhanced Structural Adjustment Facility (ESAF). This process included

- The 1997 staff review of the ESAF ten years after the facility's inauguration in 1987.[1]
- An external review of the ESAF in 1998.[2]
- A summary paper on the internal and external reviews—*Distilling the Lessons of the ESAF Reviews*—discussed by the Executive Board in July 1998 and leading to a first round of changes to the ESAF architecture and staff guidance.[3]
- Discussions in the Executive Board and the Interim Committee of the Board of Governors in September 1999 leading to the decision to transform the ESAF into the PRGF and link the PRGF closely to Poverty Reduction Strategy Papers (PRSPs).
- An Operational Issues paper for the PRGF discussed by the Executive Board in December 1999.[4]

A paper providing more precise staff guidance as to the expectations of the PRGF and PRSPs—*Key Features of Poverty Reduction and Growth Facility-Supported Programs*[5]—was distilled from the Operational Issues paper and its summing up, issued to the Executive Board, and subsequently published.

[1] George Abed, 1998, *Fiscal Reforms in Low-Income Countries*, IMF Occasional Paper No. 160 (Washington: International Monetary Fund). Hugh Bredenkamp and Susan Schadler, eds., 1999, *Economic Adjustment and Reform in Low-Income Countries (ESAF Review Background Papers)* (Washington: International Monetary Fund). International Monetary Fund, 1998, *The ESAF at Ten Years: Economic Adjustment and Reform in Low-Income Countries*, IMF Occasional Paper No. 156 (Washington).

[2] ESAF Evaluation Board, 1998, *External Evaluation of the ESAF* (Washington: International Monetary Fund).

[3] *Summing Up by the Chairman of the Executive Board—Distilling the Lessons from the ESAF Reviews*, IMF Executive Board Meeting, July 8, 1998, available via Internet: http://www.imf.org/external/np/sec/buff/9862.htm. *Distilling the Lessons from the ESAF Reviews*, July 1998, available via Internet: http://www.imf.org/external/pubs/ft/distill/index.htm.

[4] *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues*, December 13, 1999, available via Internet: http://www.imf.org/external/np/pdr/prsp/poverty2.htm.

[5] *Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs*, August 16, 2000, available via Internet: http://www.imf.org/external/np/prgf/2000/eng/key.htm. *Concluding Remarks by the Chairman of the IMF's Executive Board—Poverty Reduction Strategy Papers—Operational Issues and Poverty Reduction and Growth Facility—Operational Issues*, IMF Executive Board Meeting, December 21, 1999, available via Internet: http://www.imf.org/external/np/pdr/prsp/1999/991221.htm. *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues*, December 13, 1999.

- PRGF-supported programs place strong emphasis on measures to improve public resource management and accountability by incorporating steps to improve PEM systems and implementation of fiscal governance measures.
- Finally, PRGF-supported programs are expected to report on the social impact of measures in the program that could have an adverse effect on the poor. Countervailing measures are expected to be included in the program based on such analysis. The World Bank is expected to take the lead on the analysis.

The remainder of this paper provides an assessment of the extent to which PRGF-supported programs have implemented the individual key features. Section II provides an overview of study sample design and the methodology used in the study. Section III describes whether PRGF-supported programs are consistent with key features 1 and 2—broad ownership and participation, and embedding the PRGF in the overall strategy for growth and poverty reduction. Section IV tackles the issue of whether government budgets are more pro-poor and pro-growth (key feature 3). Section V addresses whether there is fiscal flexibility in PRGF-supported programs (key feature 4). Section VI examines whether PRGF-supported programs have incorporated more selective structural conditionality (key feature 5). Section VII covers measures to improve public resource management and accountability (key feature 6). Completing the examination of key features, Section VIII discusses whether PRGF-supported programs incorporate poverty and social impact analysis of major macroeconomic adjustments and structural reforms (key feature 7). Section IX discusses the potential role of capacity building in strengthening the design of PRGF-supported programs. The final part, Section X, provides a summary of the experience thus far with PRGF program design.

Box 2. Key Features of PRGF-Supported Programs

As use of the PRGF has evolved, a number of distinctive features of the new facility have emerged. Foremost among these is broad public participation and increased national ownership. Basing a PRGF-supported program on the country's PRSP should ensure that civil society has been involved in the formulation of the program, that the country authorities are the clear leaders of the process, and that the program is properly embedded in the overall strategy for growth and poverty reduction. Thus, IMF staff are required to explain to the Executive Board how these programs derive from the poverty reduction strategy and how they are complementary to the World Bank's activities and conditionality.

An important outcome of the new approach is that more attention is being given to the economic aspects of governance than in the past. At the same time, more attention should be given to the social impact of major reforms under the program. Where major reforms are expected, analysis of the impact on the poor has to be conducted (normally by the World Bank where governments lack the capacity to do this work themselves) and, where necessary, countervailing measures incorporated in the PRGF-supported program. With improved country ownership, PRGF conditionality can and should be more selective, focusing on measures central to the success of the country's strategy, particularly in the macroeconomic and financial area.

Key features are as follows:

1. Broad participation and greater ownership
2. Embedding of the PRGF in the overall strategy for growth and poverty reduction
3. Budgets that are more pro-poor and pro-growth
4. Appropriate flexibility in fiscal targets ensured
5. More selective structural conditionality
6. Emphasis on measures to improve public resource management/accountability
7. Social impact analysis of major macroeconomic adjustments and structural reforms

Sources: International Monetary Fund, 2001, *IMF Lending to Poor Countries—How Does the PRGF Differ from the ESAF?*, IMF Issues Brief 01/06 (Washington). *Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs*, August 16, 2000, available via Internet: http://www.imf.org/external/np/prgf/2000/eng/key.htm. Additional details on the breadth of the key features (seven features with a total of 22 sub-elements falling within the scope of this review) can be found in Appendix III.

II Overview of the Study Sample and Methodology

In reviewing the implementation of the key features, the analysis focuses on the extent to which *program design* in PRGF-supported programs has been consistent with these goals. Because of the early stage of the transformation from the ESAF, it is not yet possible to consider questions about how the PRGF has affected poverty and growth. The process of transformation from the ESAF to the PRGF is ongoing, and in many respects it is still at an early stage—a large majority of PRGF-supported programs in place are either new PRGF-supported arrangements that have not yet reached their first review or ESAF-supported arrangements that have been transformed into PRGF-supported arrangements in midstream.[1] Nevertheless, an attempt has been made to evaluate outcomes in relation to objectives wherever data were available (mostly in the fiscal area).

There are some differences in specific approach across the seven key features in light of data availability and other concerns. The assessment of whether the key elements of the program are derived from the I-PRSPs/PRSPs, and whether the PRGF conditionality and projections are embedded in the growth and poverty reduction strategy of the authorities (Section III), is based on a comparison of letters of intent and/or memoranda of economic and financial policies (LOIs/MEFPs) and the associated I-PRSPs/PRSPs. The assessments of pro-poor and pro-growth budgeting, fiscal flexibility, selectivity of structural conditionality, improved public resource management and accountability, and poverty and social impact analysis (Sections IV–VIII) are based in large measure on comparison of targets for the PRGF-supported programs with the corresponding outturn in the year preceding the PRGF-supported programs in the same countries. A comparison is also made in these sectors with program design under the preceding IMF-supported program.

To focus on programs that had adequate opportunity to reflect the new features expected under the PRGF, this analysis is based on programs approved or reviewed by the Executive Board between July 1, 2000, and September 30, 2001.[2] The sample includes PRGF-supported arrangements and PRSP processes at a variety of stages.[3] Nineteen countries in the sample had new, three-year PRGF-supported arrangements approved, and an additional 16 countries had transformed PRGF-supported arrangements through conclusion of two or more reviews during this 15-month period or a review supported by a full PRSP (Table 1). Similarly, the stages of the PRSP process vary across countries and reviews; most requests and reviews have come to the Board either with the I-PRSP or between the I-PRSP and the PRSP. A few preceded the I-PRSP, came to the Board with the full PRSP, or were concluded after Board consideration of a full PRSP. Further complicating the assessment, the stage of the PRGF-supported arrangement and the PRSP process are generally out of synchronization. In contrast to the steady state envisaged in *Poverty Reduction and Growth Facility—Operational Issues* in which new PRSPs would be accompanied by new PRGF-supported programs, none of the six countries with full PRSPs covered in this sample is associated with a new PRGF-supported arrangement, because they already had such an arrangement in place at the time. The distribution of arrangement requests and reviews across PRGF and PRSP stages is summarized in Table 1. The countries included and the reviews and requests are listed in Appendix IV.

[1]These are referred to in this document as transformed PRGF-supported arrangements/programs.

[2]These comprise new PRGF-supported arrangements approved by the IMF Executive Board between July 1, 2000, and September 30, 2001; arrangements approved earlier that have concluded two or more reviews during the same 15-month period; and arrangements supported by both a full PRSP and a review under the arrangement during the same period. Earlier documents are excluded to avoid assessing programs that largely predated the PRGF against these later standards. The cutoff date of September 30, 2001, was selected to allow adequate time to assess the documents. See Appendix IV for more details on the sample.

[3]This staff report does not assess PRSPs or I-PRSPs; these are assessed in the parallel joint World Bank–IMF *Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings*, March 15, 2002, available via Internet: http://www.imf.org/external/np/prspgen/review/2002/031502a.htm; and *Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs*, March 26, 2002, available via Internet: http://www.imf.org/external/np/prspgen/review/2002/032602a.htm.

Table 1. Stages of PRGF-Supported Arrangements and Stages of PRSPs

	Stage of PRGF-Supported Arrangement			
Stage of PRSP Process	Request for New Arrangement	Review of Ongoing Arrangement	Final Review of Arrangement	Total
Pre-I-PRSP or PRSP	0	4	0	4
I-PRSP	17	10	2	29
Between I-PRSP and PRSP	2	18	1	21
PRSP	0	4	0	4
Post-PRSP	0	4	1	5
Total	19	40	4	63

Sources: IMF country documents; national authorities, country policy intentions documents.

III Key Features 1 and 2: Broad Ownership and Participation and Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction

The interrelated key features 1 and 2 set out several aspects of the expected relationship between the PRGF-supported program and the PRSP. Specifically, PRGF-supported programs should be consistent with, and drawn from, the PRSP in a manner that takes into account national priorities. Further, PRGF-supported programs should concentrate on those parts of the poverty reduction strategy that are within the IMF's areas of expertise while remaining cognizant of and consistent with those parts of the strategy that are outside the IMF's areas of expertise.

PRGF-supported programs have achieved a high degree of consistency with the supporting I-PRSPs/PRSPs on broad macroeconomic goals, targets, and projections, as well as on structural measures. The first two of the seven key features of the PRGF have five sub-elements relevant to this review: (a) PRGF-supported programs draw their main elements from the country's PRSPs; (b) where relevant, joint staff assessments (JSAs) and staff reports should highlight flexibility in accepting country choices; (c) PRGF-supported programs demonstrate how macroeconomic and other policies have been influenced by growth and poverty objectives; (d) aspects of the PRGF-supported program that promote private sector development should be highlighted; and (e) PRGF contribution to the poverty reduction strategy should be focused on areas within the IMF's areas of expertise and responsibility. Because (a) and (c) cover the core of both key features but also cover much the same ground, they are treated together at the outset; (b), (d), and (e) are treated individually in the following subsections.[4]

[4]The third and fourth sub-elements of the broad ownership key feature—(c) PRSPs should be produced in a transparent process with broad participation and (d) PRSPs are to be produced by country authorities—are covered in the staff papers for the parallel *Review of the Poverty Reduction Strategy Paper Approach: Main Findings* and *Early Experience with Interim PRSPs and Full PRSPs.*

Draw Main Elements from a Country's PRSP

PRGF-supported programs show a high degree of consistency with the underlying I-PRSPs/PRSPs in three main aspects—the broad objectives of the programs, the macroeconomic projections and targets, and the structural measures. The broad objectives of the PRGF-supported programs as set out in the LOIs/MEFPs were compared with the goals of the underlying I-PRSPs/PRSPs.[5] While the goals of the I-PRSP/PRSP typically cover areas beyond those of the PRGF-supported program (e.g., poverty diagnostics), it is generally possible to identify the broad objectives set out in the LOIs/MEFPs in the I-PRSPs/PRSPs. Macroeconomic projections and targets from the staff reports/LOIs/MEFPs have been compared to those of the I-PRSPs/PRSPs (where quantitative projections are available in the latter documents) and to the macroeconomic projections and targets of the most recent preceding annual arrangement under the ESAF. These show a very high degree of consistency between the PRGF-supported program documents and the I-PRSPs/PRSPs, as well as a broad continuity with similar projections in previous ESAF-supported annual arrangements. Finally, the links between the specific structural measures in the PRGF-supported program documents (LOIs/ MEFPs and staff reports) and the I-PRSPs/PRSPs were examined; while it was generally possible to find measures in the I-PRSPs/PRSPs that were at least consistent with, and often essen-

[5]Structural but macroeconomic-relevant objectives are, for example, governance and corruption-reducing structural reforms affecting revenues and expenditures and the financial sector (Georgia); reform of the cocoa sector to allow greater private participation and increased efficiency (Ghana); and reallocation of budgetary resources to activities having a direct bearing on the poor (Lesotho). In other cases, the objectives overlap with the macroeconomic targets and assumptions (maintaining price stability, increasing growth, etc.).

tially the same as, those in the PRGF-supported program documents, cross references to specific measures are uncommon, and readers are left to determine the consistency by their own comparison of the documents.

Broad Macroeconomic and Macro-Relevant Objectives

The broad macroeconomic goals of PRGF-supported programs show a very high degree of consistency with the I-PRSPs/PRSPs underpinning these programs. The broad macroeconomic and macro-relevant goals set out in PRSPs have been compared with the goals of PRGF-supported programs as stated in the LOIs/MEFPs for 59 PRGF-supported program requests and reviews.[6] For 44 of these, the goals of the PRGF-supported program were judged to be essentially the same as those set out in the countries' I-PRSPs/PRSPs. For another 13 requests or reviews, the broad goals were partially consistent with those set out in the countries' poverty reduction strategies. Only two LOIs/MEFPs have broad macroeconomic goals that cannot be seen as having been drawn from the poverty reduction strategy. The two exceptions relate to the request for a PRGF-supported program by Ethiopia and the first review under this arrangement. In this case, the I-PRSP is almost entirely silent on macroeconomic and macro-relevant goals. The JSA for the I-PRSP indirectly acknowledges this; it cites only goals derived from the PRGF-supported program and notes that these goals were discussed with the World Bank and the authorities and were regarded as part of the interim poverty reduction strategy even though these were not part of the I-PRSP itself.

The degree of consistency in macroeconomic goals is greatest for PRGF-supported programs underpinned by full PRSPs, only slightly less for PRGF-supported programs presented to the Board together with I-PRSPs, and still substantial for PRGF-supported programs presented to the Board subsequent to the endorsement of the I-PRSPs, but before the presentation of the full PRSP (Table 2). For program reviews underpinned by full PRSPs (either completed by the Board together with the endorsement of the full PRSP or subsequent to it), the objectives of the PRGF-supported program could be drawn fully from the PRSP in eight of nine cases and partially in the ninth. Requests or reviews approved by the Board at the same time the I-PRSPs were presented for endorsement also displayed a very high degree of consistency in macroeconomic and macrorelevant goals between the I-PRSPs and LOIs/MEFPs with goals in 23 of 29 LOIs/MEFPs that are fully consistent with the I-PRSPs, 5 where PRGF-supported program goals were partially consistent with those in the I-PRSPs, and only 1 where the goals of the program were not consistent with goals set out in the I-PRSP. Finally, a majority of LOIs/MEFPs coming to the Board after the I-PRSP, but before the PRSP, were judged to be fully consistent, and all but one of the remainder were judged partially consistent with the preceding I-PRSP. In this last case, changes in economic conditions or the emergence of new issues in the intervening period explained the discrepancy.

The cases in which the goals could be only partially derived from the I-PRSPs/PRSPs are mostly attributable to very general or partial specification of macroeconomic goals in these documents rather than to any inconsistency or conflict between the two. For example, Armenia stands out as having a relatively substantial specification of macroeconomic goals in the I-PRSP. In this case, however, the need to raise tax revenue is no more than implicit, while the PRGF-supported program documents and the JSA present raising tax revenue as a central goal of the PRSP strategy and the PRGF-supported program. The closest case among these where an actual conflict may be evident between the I-PRSP (issued June 1, 2000) and the PRGF-supported program is the case of Senegal, where the JSA notes differences in macroeconomic projections between the two and the omission of major structural issues in the I-PRSP. Even here, though, the differences in outlook are modest, and disagreements are confined largely to a looseness of the relationship between the I-PRSP and the PRGF-supported program rather than to any inconsistency between the two.

Macroeconomic Targets and Projections

The macroeconomic targets and projections underpinning PRGF-supported programs are very similar, though not identical, to those of the contemporaneous I-PRSPs/PRSPs in almost all cases. Projections for the current and three projected years were collected from both I-PRSPs/PRSPs and PRGF-supported program staff reports on inflation, growth, the current account balance, official transfers, and several balance-of-payments financing items as another indication of consistency in broad macroeconomic projections.[7] Projections were identical in 18 of the 33 cases where a PRGF-

[6] Four reviews predate both the I-PRSP and the PRSP and are excluded from this sample.

[7] A selection of these indicators are reported in Table 3. Fiscal projections are considered separately in Section V.

Table 2. Are the Broad Macroeconomic and Macro-Relevant Goals of PRGF-Supported Programs Drawn from I-PRSPs/PRSPs?

Stage of PRSP Process	Yes	Partially	No	Total
Pre-I-PRSP or PRSP	0	0	4	4
I-PRSP	23	5	1	29
Between I-PRSP and PRSP	13	7	1	21
PRSP	3	1	0	4
Post-PRSP	5	0	0	5
Total	44	13	6	63

Sources: IMF country documents; national authorities, country policy intentions documents.

supported program request or review was presented to the Board together with an I-PRSP/PRSP, and differed by only very small amounts in seven additional cases. The one case in which there are significant differences in projections that appear to be intentional is that of Cambodia, where the JSA notes that the projections in the I-PRSP are those discussed with IMF staff, but economic disruption caused by severe floods after the I-PRSP projections were made final had resulted in revisions to the PRGF-supported program projections. In the remaining seven cases, all from 2000, no table of macroeconomic projections was included in the I-PRSPs/PRSPs, and the text contained too little detail for a meaningful comparison to be made. While these results indicate that consistency of the PRGF-supported program with the I-PRSPs/PRSPs is taken seriously, they do not rule out the possibility (reported in several instances by some donors, NGOs, and authorities) that the PRGF-supported programs influence the I-PRSPs/PRSPs rather than the other way around. The close correspondence in form and content between several I-PRSP/PRSP projection tables and the standard Selected Economic Indicators tables for the same country in IMF staff reports is also suggestive in this regard.

Growth, inflation, and current account objectives in PRGF-supported programs show a high degree of continuity with the preceding ESAF-supported programs (Table 3). Average real GDP growth rates are very similar in both cases. The median growth rate is projected at slightly higher levels in PRGF-supported arrangements, with 17 countries showing a higher average growth under the PRGF-supported program projections and 17 showing a higher average growth under the ESAF-supported programs. PRGF-supported programs also target larger increases in growth (1.5 percent against 0.5 percent for programs under the ESAF).[8] Median inflation rates for the PRGF-supported programs are projected to be roughly one percentage point lower than for ESAF-supported programs. Eighteen countries in the sample show a somewhat higher average inflation rate under the PRGF-supported program, and 15 show a somewhat higher average inflation rate under the ESAF-supported program. Reductions in inflation were slightly smaller under PRGF-supported programs. The median current account balance-to-GDP ratio for programs supported by arrangements under the PRGF is slightly worse than under the ESAF-supported programs; the median improvement in the current account balance over the three-year projection period is 0.6 percent of GDP for both the ESAF and PRGF subsamples. Nineteen countries had a better current account balance (smaller deficit or higher surplus) under the ESAF-supported program than under the PRGF-supported program, and 11 had the reverse pattern (comparable data are unavailable for the remaining five). The differences between these comparisons may owe as much to the context of the global eco-

[8]The comparison of projections and assumptions in PRGF-supported programs described in this section compare the *medians* of the average growth, inflation, current account balance, or level of official transfers over the first three years of the projection period (fewer if three years of projections are not available) against the first three years of the projections in the preceding ESAF-supported program. Comparisons of trends within program projections compare the change between the first projected year with the third for programs under both ESAFs and PRGFs. Medians are used rather than averages for comparisons across countries to avoid giving undue weight to outliers. Where multiple PRGF requests or reviews are included in the sample, the most recent staff report is used. Moldova is excluded from these comparisons because it had no preceding ESAF-supported program; a few other countries are excluded from some calculations where data are not available.

Table 3. Median Economic Assumptions in PRGF- and ESAF-Supported Programs
(In percent, except where indicated)

	ESAF-Supported Programs	PRGF-Supported Programs
Real GDP growth	5.5	5.9
Change in GDP growth[1]	0.5	1.5
Inflation[2]	4.6	3.5
Change in inflation[1]	–1.9	–1.5
Current account balance[3,4]	–6.0	–6.4
Change in current account balance[1,4]	1.1	1.6
Official transfers[3]	3.8	4.4
Change in official transfers[1,3]	–1.0	–0.6

Source: IMF staff estimates.
[1]Third projected year less current year.
[2]GDP deflator where available, CPI otherwise.
[3]In percent of GDP.
[4]Excluding transfers.

nomic environment as to countries' histories; the lower level of inflation under PRGF-supported programs (mostly 2001 projections) may be attributable in part to the global slowdown in growth, and in part to some success in reining in inflation under the previous ESAF-supported programs (predominant projections from 1998–99). In any case, they do not seem to show a substantial departure from targets and projections for ESAF-supported programs in the sample.

Official transfers are discernibly higher in PRGF-supported program projections (4.4 percent of GDP) than in those for ESAF-supported programs (3.8 percent of GDP). The higher levels of projected grants under PRGF-supported programs are not purely a consequence of assistance under the heavily indebted poor country (HIPC) initiatives. Nine HIPCs had higher average official transfers under PRGF-supported projections and eight had higher official transfers for their last ESAF-supported annual arrangement. Among non-HIPC countries, six had higher levels of official transfers in PRGF-supported program projections versus only three in the ESAF-supported program projections. Results for nine countries are not available or are not comparable. The median level of official transfers under PRGF-supported programs declines by 0.6 percent of GDP between the current year and the third projection year—a somewhat smaller decline than under ESAF-supported programs, which showed declines over the projection period in a large majority of individual cases.

Structural Measures

Structural policies of PRGF-supported programs are generally consistent with the overall poverty reduction strategy. About 60 percent of all structural conditions could be derived directly from or were at least consistent with the I-PRSPs/PRSPs, and 24 percent were explicitly derived from these documents. Moreover, consistency with the I-PRSPs/PRSPs has been significantly better in programs supported by new arrangements under the PRGF approved since July 2000. About 80 percent of structural conditionality in these programs was consistent with the I-PRSPs/PRSPs, versus 45 percent in transformed PRGF-supported programs. In the cases of Chad, Georgia, Guinea-Bissau, Kenya, Lesotho, Macedonia, and Rwanda, for example, the link was particularly strong and explicit. These examples suggest that consistency between the I-PRSPs/PRSPs and PRGF-supported program documents will improve over time as transformed PRGF-supported arrangements are replaced by new PRGF-supported arrangements.

Nevertheless, there is considerable scope for improving the consistency between the PRGF-supported program and the authorities' poverty reduction strategy. About one-third of the structural conditionality measures included in PRGF-supported programs still seem to have little relation to the I-PRSP/PRSP. To some extent, this may occur because program negotiations take place some months after the I-PRSP/PRSP is made final; it may

also be attributable to new developments. If so, it would be useful to report in PRGF program documents on discussions with the authorities about their views on the continuation of structural reforms and how these views will be reflected in the I-PRSP/PRSP or subsequent progress reports.[9] Staff reports and LOIs/MEFPs generally failed to cross-reference or note the consistency with the I-PRSPs/PRSPs, even in circumstances where there is a high degree of consistency. The same conclusion was noted in the submission from the United Kingdom for the PRGF review.[10]

Coherence of PRSPs and PRGF-Supported Programs and the Emphasis on Growth

The foregoing analysis points to a high level of consistency of PRGF-supported programs with the I-PRSP or PRSP. But this should not be read as suggesting that the PRGF-supported programs can be fully derived from I-PRSPs and PRSPs. First, while PRGF-supported programs are consistent with their I-PRSPs and PRSPs, the latter often set out macroeconomic policies solely in broad terms, and quantitative frameworks are typically skeletal, perhaps reflecting capacity constraints in some countries. This leaves a substantial amount of detail to be filled in by the PRGF-supported program. In addition, the consistency between the PRGF documents and the I-PRSPs and PRSPs does not rule out cases in which the macroeconomic goals and policies for the I-PRSP or PRSP are derived from previous PRGF-supported programs or ongoing program discussions. Such "reverse causality" has been reported on many occasions by donors and NGOs in instances where either authorities felt constrained to remain within the framework set out in earlier PRGF or ESAF requests or reviews, or they adopted the PRGF framework in the absence of any independent contribution on the macroeconomic framework from the PRSP process.

Nonetheless, despite some "chicken-and-egg" controversy, national authorities in countries with PRGF-supported programs generally concurred with the assessment that PRGF-supported programs are consistent with I-PRSPs or PRSPs. In response to a survey (Appendix II), some 87 percent agreed (or agreed strongly) that their PRGF-supported program is consistent with the government's underlying poverty reduction strategy as set out in the I-PRSP or PRSP. Similarly, 82 percent agreed or strongly agreed that the goals of the PRGF-supported program are "consistent with the economic goals of the government and other national institutions." However, some queried the adequacy of consultation about the macro framework in the context of the I-PRSP or PRSP. Some 59 percent agreed that the PRGF gave the authorities more opportunity to influence program design, but 35 percent were neutral and 6 percent disagreed.

As well as indications of an increase in country ownership of PRGF-supported programs, there is broad evidence that the early PRGF-supported programs are placing additional emphasis on growth as a means of poverty reduction in program design, and doing so to a greater extent than under previous IMF supported programs, including on private sector development. Based on the reform agenda set out in PRGF-supported programs, macroeconomic projections and assumptions also show an increased emphasis on growth and expectations of increased external assistance. National authorities have expressed the view that PRGF-supported programs place sufficient emphasis on growth as a means of poverty reduction (more than four-fifths of the respondents agreed or strongly agreed, Appendix II) and also that the emphasis on poverty reduction is higher than under previous ESAF-supported programs (more than four-fifths of the respondents agreed or strongly agreed, with nearly half agreeing strongly). Growth is critical for achieving poverty reduction, and attention to the sources of growth is essential in developing appropriate policies and projections. Notwithstanding the preceding views, it is necessary to remember that these are expectations at the program design stage, and the outcome will depend on both the effectiveness of program implementation and the international economic environment in which countries undertake these efforts.

Highlight Flexibility in Accepting Country Choices

Relatively few staff reports for PRGF-supported program requests or reviews explicitly indicate areas in which alternative policy options were considered or in which the final choices were different from those initially considered by the authorities or by IMF staff. About one-fifth of the reports (12 of 63) identified such circumstances covering both macroeconomic and structural issues. The staff report for

[9] The need for explicit notation of such developments in the PRGF program documents is set out in paragraph 22 of *The Poverty Reduction and Growth Facility (PRGF)—Operational Issues*, December 13, 1999, available via Internet: http://www.imf.org/external/np/pdr/prsp/poverty2.htm, but has been implemented unevenly.

[10] IMF PRGF Review: Submission from HM Treasury/Department for International Development, United Kingdom. See *External Comments and Contributions on the Joint Bank/Fund Staff Review of the PRSP Approach, Volume I: Bilateral Agencies and Multilateral Institutions*, February 2002, available via Internet: http://www.imf.org/external/np/prspgen/review/2002/comm/v1.pdf.

Lesotho (March 2001) provides a good example. The document describes the process of moving from the broad policy objectives in the I-PRSP to the specific fiscal commitments in the program, noting how a compromise was reached between positions of the staff and authorities that was compatible with the authorities' macroeconomic goals. The staff report also highlights continuing differences between the staff and the authorities on the promotion of specific economic activities and on import liberalization. The staff report for the third review of the PRGF-supported program for Ghana (June 2001) provides another example of staff flexibility; it cites an accommodation of the authorities' preferences with respect to the pace of interest rate adjustments and foreign exchange liberalization, where in both cases the staff had advised faster actions.

Most staff reports do not explicitly cite such evidence of flexibility, even though there is frequently considerable change in the design of the program during the extended process of program negotiations. Part of the explanation for this silence may relate to the drafting approach taken in many staff reports. While difficult to quantify, it is clear that many staff reports are drafted in an impersonal style that avoids attribution of views to staff, authorities, or anyone else (e.g., through use of passive voice). Other reports describe the economic program and cite only IMF staff views in support of the program's content. While understandable as a reflection of staff's desire to remain consistently supportive of presenting the authorities' program to the Board, these drafting styles likely contribute to the view held by some outside commentators that IMF-supported programs are developed through the unwavering imposition of a single, made-in-Washington model of economic policy. These drafting styles also stand in sharp contrast to that expected for Article IV staff reports where an explicit presentation of both sides of the policy dialogue is required. In this context, it may not be entirely coincidental that the examples of both Ghana and Lesotho cited above are taken from reports that were also Article IV staff reports, whereas the staff reports for stand-alone PRGF-supported program reviews for Ghana and Lesotho in the sample do not exhibit such differences of view.

Many donor agencies and civil society organizations (CSOs) have emphasized the value of providing more information in IMF staff reports on the evolution of program design. Country authorities have been more ambivalent about this because it might appear to qualify or compromise the IMF's support for the program as a means of achieving the program's goals and consistent with the need to maintain frank and confidential program discussions. On balance, this appears to be an issue on which IMF staff reports could go further, starting with cases where the authorities themselves are keen to show how elements of the program have evolved during the design stage.

Staff could also encourage authorities in countries with PRGF-supported programs to take measures to promote greater participation and national ownership and support these measures through their own efforts. The need for additional efforts in this regard was highlighted repeatedly in external comments for this review and has also been discussed by the Board in the context of the recent paper on strengthening country ownership.[11] Staff should encourage an active and open discussion of options by the authorities through whatever means the authorities choose (e.g., releasing summaries of options under discussion or meeting with press and civil society), and mission teams and resident representatives should assist authorities in doing so (e.g., participating in seminars or press conferences). Authorities could also be encouraged to establish or make use of websites for this purpose.

Existing policies already encourage IMF missions and resident representatives to be in contact with legislators, trade union representatives, and other civil society organizations.[12] Such contacts are already quite common, as has been indicated through surveys of IMF mission teams. There is a clear sense from external inputs to the Review of the PRGF and the Review of the PRSP Process, though, that these contacts have not gone far enough. Additional efforts may be appropriate for both mission teams and resident representatives. Nevertheless, care must be taken to recognize that the focus of the participatory process and the main means of developing national ownership should rest with the PRSP process, not the PRGF discussions. There has also been increasing focus on resident representatives' work with civil society organizations to promote greater understanding of the IMF, and IMF-supported programs, and the importance of efforts in this area could be reaffirmed. Finally, it is important that the staff efforts be in support of the authorities' own dissemination strategy and respect the modalities and institutions the authorities believe most appropriate for their circumstances.

[11]*Strengthening Country Ownership of Fund-Supported Programs*, December 5, 2001, available via Internet: http://www.imf.org/external/np/pdr/cond/2001/eng/strength/120501.htm, and International Monetary Fund, Public Information Notice (PIN) No. 01/92, September 4, 2001, "IMF Concludes Discussions on Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality," available via Internet: http://www.imf.org/external/np/sec/pn/2001/pn0192.htm.

[12]*Summing Up by the Chairman of the Executive Board—Distilling the Lessons from the ESAF Reviews*, IMF Executive Board Meeting, July 8, 1998. *Status Report on Follow-Up to the Reviews of the Enhanced Structural Adjustment Facility*, August 30, 1999, available via Internet: http://www.imf.org/external/np/esaf/status/index.htm.

Box 3. Publication of PRSP and PRGF-Related Documents

Recent changes in IMF publication policy and practice have brought about nearly universal publication of the authorities' policy commitments and substantial disclosure of staff documents assessing these programs. Both staff and authorities' documents relating to the PRSP process (the I-PRSP/PRSP, and the JSA) and PRGF LOIs/MEFPs are presumed to be published and have been published for almost all Executive Board discussions in 2001. Staff reports for the PRGF, for which publication is purely voluntary, have been published for about half of PRGF requests or reviews in 2001.

These publication results represent a sharp shift from even the very recent past. Before 1998, well below half of the authorities' policy intentions documents were published for PRGF countries. With the shift to a presumption of publication in 1999, publication of these documents has become the norm with only a handful of exceptions. Staff reports could not be released at all before 1999, and they could be released only on a narrowly restricted basis before the approval of the transparency decision (see IMF PIN No. 01/3, January 12, 2001). The presumption of publication also applies to JSAs, starting with the approval of the transparency decision, and all JSA documents issued since the approval of that decision have been published.

PRGF and PRSP Documents Published by Year
(Percentage published; absolute figures in parentheses)

	Total	2000	2001[1]
PRSPs[2]	100 (53 of 53)	100 (30 of 30)	100 (23 of 23)
JSAs[3]	55 (29 of 53)	21 (6 of 29)	96 (23 of 24)
PRGF LOIs/MEFPs[4]	96 (86 of 90)	97 (37 of 38)	94 (49 of 52)
PRGF Staff Reports[5]	36 (32 of 90)	13 (5 of 38)	52 (27 of 52)

[1]For 2001, includes papers discussed by the Executive Board from January through November 2001 only, and therefore cover more documents than used for other aspects of the review.
[2]Includes I-PRSPs, PRSPs, progress reports on PRSPs, and Status Reports on Implementation of PRSPs.
[3]JSAs considered by the Executive Board in 2000 could be published only after the transparency decision went into effect on January 4, 2001. The only unpublished JSA for 2001 Executive Board consideration was issued to the Executive Board in December 2000; it was discussed only in January 2001.
[4]LOIs/MEFPs were not published for one review each for Chad, Guyana, Senegal, and Yemen.
[5]Stand-alone PRGF staff reports became eligible for publication under the transparency decision. Before that, and in the context of the pilot project for the voluntary release of Article IV staff reports, PRGF requests for staff reports could be released only for Board discussions after August 29, 2000, and published only after the January 4, 2001, transparency decision, except for earlier reports participating in the pilot project for voluntary release of Article IV staff reports (and then only combined with Article IV consultations).

The increased transparency of the IMF has expanded the audience for IMF documents (Box 3) and increased the importance of clearly setting out staff's and authorities' views. In the past, the implicit or indirect approach to explaining or hinting at difference of views between the staff and the authorities was less prone to yield misunderstanding because the readership was limited to a comparatively small set of Executive Board staff and national authorities familiar with the IMF and skilled at reading between the lines. Notwithstanding the now wider audience, many staff reports continue to avoid explicit discussion of such differences. Greater frankness about disagreements on policies and more direct discussion of the policy dialogue is needed to make such views clearer in staff reports. But the need for a more explicit discussion of the policy dialogue needs to be implemented in a manner that is consistent with the staff's support for the program as a means of achieving its goals and that does not compromise the potential for frank and confidential program discussions.

Focus on Areas of IMF Expertise and Responsibility

Structural conditionality in PRGF-supported programs has concentrated on areas of IMF expertise consistent with the objectives set out for the facility. Streamlining structural conditionality is itself one of the key features of PRGF-supported programs, and the IMF staff's efforts to focus the PRGF contribution to the overall strategy in terms of structural con-

ditionality is covered in Section VI below. Outside the context of streamlining structural conditionality, there is little treatment of the role of other institutions or implementation of other parts of the poverty reduction strategy in IMF documents.

Two specific aspects of the authorities' overall poverty reduction strategies are singled out in the various Board papers for special emphasis: measures to promote growth led by the private sector and measures directly targeting, monitoring, and alleviating poverty. Consistent with the objective of the PRGF, measures to promote private sector development are discussed prominently in PRGF-supported program documents. At the same time, conditionality on these measures has been selective because they often fall in the policy domain of the World Bank. The total number of conditions included in programs to promote private sector growth drops by more than half (from 3.7 to 1.45) between the ESAF and PRGF parts of the sample, and four-fifths of these measures in both ESAF- and PRGF-supported programs cover privatization and public enterprise reform. Only about one-fifth of the ESAF (18 percent) and PRGF (22 percent) requests and reviews surveyed had prior actions, performance criteria, structural benchmarks, or review topics directly focused on reducing poverty; these mostly related to expenditure allocations.

There remains substantial room for improvement in the presentation of the role of the World Bank and other institutions in supporting poverty reduction strategies in IMF staff reports. Few staff reports routinely describe the activities of the Bank (or other institutions) in promoting alleviation of poverty or place the PRGF-supported program in a broader context. The boxes on streamlining structural conditionality (see Box 5 in Section VI) have been somewhat helpful in this regard; but these would tend to pick up the role of other institutions only to the extent that they are active in areas that have been subject to conditionality in recent IMF-supported programs. Measures to promote reduction of poverty have not generally been a part of conditionality of previous IMF-supported arrangements, and therefore they are less likely to be picked up in the descriptions of World Bank activity in structural conditionality boxes (or elsewhere in IMF documents), including descriptions in the standard appendix on World Bank Relations.

IV Key Feature 3: Budgets That Are More Pro-Poor and Pro-Growth

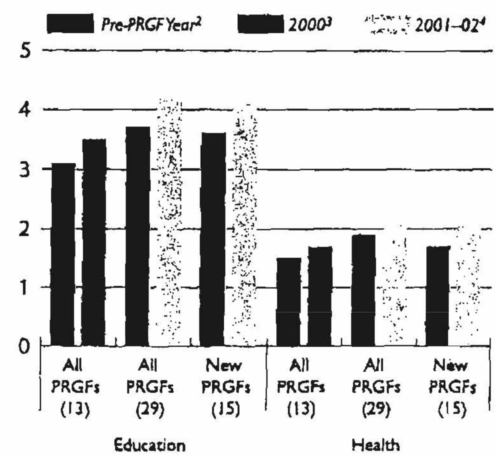
This key feature sets out the expectations that PRGF-supported programs increase poverty-reducing expenditures, improve the efficiency and targeting of these and other expenditures, and include tax reforms that simultaneously improve equity and efficiency.

Reorient Government Spending Toward Activities That Benefit the Poor

The evidence available thus far suggests that the composition of budgeted and actual public spending is shifting towards poverty-reducing activities under PRGF-supported programs, as sought under the PRSP approach. Countries are allocating more to education and health care, both as a percentage of GDP and as a share of total government spending (Figures 1 and 2). These changes represent broad-brush shifts in expenditure composition towards poverty-reducing activities (although imperfectly, because not all public education and health spending is poverty-reducing). While not available for all countries, data on budget outturns suggest that such increases are being realized. Programs were initiated in 25 countries in the sample in 2000; for the 13 countries with available data for that year, spending on education and health care rose by an average of 0.4 and 0.2 percentage points of GDP, respectively. The emphasis in PRGF-supported programs on increasing these outlays is in concert with the view that government has a critical role to play in the provision of social services to support economic growth and poverty reduction. To improve social outcomes, though, this spending will need to be targeted to the poor (see below).

Real public spending on education and health care (including spending on HIV/AIDS) is expected to rise sharply on a per capita basis (Figure 3). These spending increases build further on the gains realized during ESAF-supported programs, where real per capita public outlays on education and health care each rose by an average of

Figure 1. Education and Health Spending in PRGF-Supported Programs, by GDP: Pre-PRGF Year to 2001–02[1]
(In percent of GDP; number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.
[1]The figures in parentheses indicate the number of countries for which data are available.
[2]1999 in most cases.
[3]2000 refers to actual expenditure level for that year.
[4]Refers to the average projected spending level for 2001–02.

more than 3 percent per year between 1985 and 1999.[13]

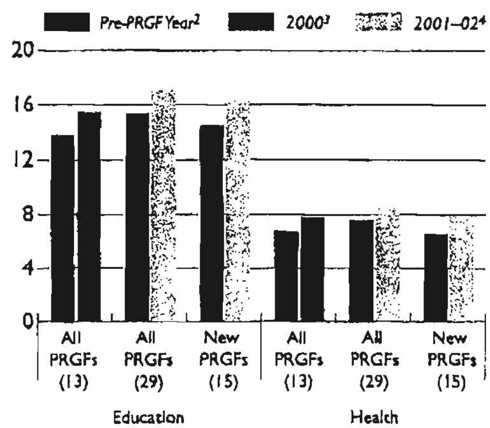
Projected increases in education and health care spending vary across countries. In the transition economies,[14] for example, smaller-than-average increases are envisaged. This reflects the slightly

[13]Based on a sample of 32 countries. Figures refer to the average annual increase in real per capita spending between the year that preceded the first ESAF-supported program and 1999.

[14]The transition economies included in the sample are Albania, Armenia, Azerbaijan, Cambodia, Georgia, Lao PDR, Macedonia, Moldova, Mongolia, Tajikistan, and Vietnam.

Figure 2. Education and Health Spending in PRGF-Supported Programs, by Total Government Spending: Pre-PRGF Year to 2001–02[1]

(In percent of total government spending; number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.

[1]The figures in parentheses indicate the number of countries for which data are available.

[2]1999 in most cases.

[3]2000 refers to actual expenditure level for that year.

[4]Refers to the average projected spending level for 2001–02.

higher levels of initial spending and the substantial scope for further rationalizing education and health care systems inherited from the pre-transition era. This contrasts with nontransition PRGF-supported program countries, where the need for expanding public education and health—as well as improving the efficiency of such spending—is great. Higher spending increases are also envisaged in nontransition PRGF-supported program countries because of debt relief under the enhanced HIPC initiative.

Substantial increases in spending identified as poverty-reducing in PRSPs are also envisaged (Figure 4). PRSPs have defined a range of programs as poverty-reducing, including spending on primary education, primary or basic health, roads, rural development, agriculture, judicial systems, and anticorruption measures.[15]

Over time, as PRSPs are updated and revised in light of the impact of policies on social outcomes, the definition of poverty-reducing activities is expected to be refined. Based on budgetary data in 19 countries that most closely approximate the PRSP definition of poverty-reducing spending, these outlays will rise, on average, by about 2 percent of GDP from the pre-PRGF year; for new PRGF-supported programs, the increase is slightly lower. The share of total government spending absorbed by these outlays will rise slightly more in new PRGF-supported programs than in the sample as a whole.

For most countries, existing budget classification systems do not allow for a precise matching of expenditure allocations and the programs identified as poverty-reducing in the PRSPs. Only 8 of the 19 countries (Azerbaijan, Bolivia, Guinea-Bissau, Madagascar, Mozambique, Niger, Tanzania, and Uganda) compile spending data on the specific poverty-reducing activities identified in PRSPs. There are also significant lags in the dissemination of data on poverty-reducing spending, including spending under the approximate definition described above; for 2000, figures are available for only five countries.[16] As countries move forward in their efforts to improve public expenditure management systems and track poverty-reducing spending (see Section VII)—including efforts with respect to budget classification—it is expected that more countries will be able to provide data consistent with the PRSP definition of poverty-reducing outlays.[17] Further progress could also be expected as countries move from interim to full PRSPs and Board documents report more systematically on these data.[18]

The ultimate objective of reorienting public spending in favor of poverty-reducing programs is to achieve better social outcomes. Data on indicators that gauge social progress, however, are available only with a substantial lag, and they may not be available for every year—making it difficult to isolate the effect of recent changes in policies. For instance, the only social indicator for which recent data are available for a large number of countries is access to clean water, for which 20 countries report data for 2000. For five countries (Burkina Faso, Lao PDR, Mozambique, Tanzania, and Uganda), data on an additional two to nine indicators are available for the first year in which a PRGF-supported program

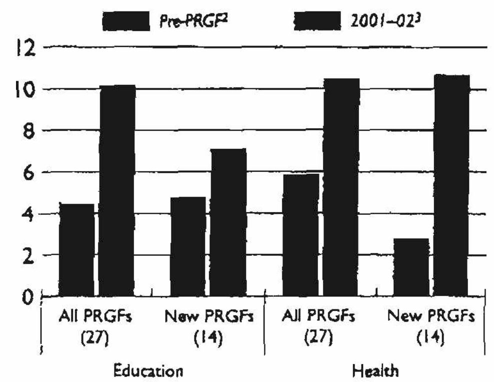
[15]Poverty reduction has also been fostered by gender-focused budgets (Tanzania).

[16]Spending increases of 1½ percentage points of GDP were realized in these countries between 1999 and 2000.

[17]For an assessment of public expenditure management systems in 24 heavily-indebted poor countries, and the actions they envisage to help strengthen the tracking of poverty-reducing spending, see the Bank/IMF Board paper, *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)*, March 22, 2002, available via Internet: http://www.imf.org/external/np/hipc/2002/track/032202.htm.

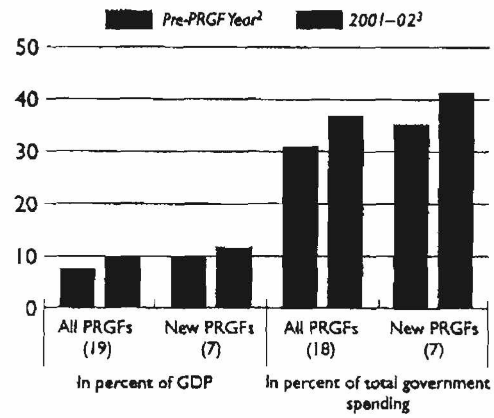
[18]Of the 35 countries in the sample, only 6 had full PRSPs at the end of September 2001.

Figure 3. Annual Change in Real Per Capita Education and Health Spending in PRGF-Supported Programs[1]
(Number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.
[1]Excludes Guinea-Bissau; extreme changes in spending distort the mean. Including Guinea-Bissau, the average annual increase in real per capita spending in education and health is 11.7 and 11.8 percent per year, respectively, over the period 1999–2001. The figures in parentheses indicate the number of countries for which data are available.
[2]Refers to the annual change in real per capita spending between 1996 and 1999. For 1999 alone, the average increase in all PRGF-supported programs for education and health is 8.9 percent and 11.0 percent, respectively.
[3]Refers to the annual change in real per capita spending over the program period up to 2001 or 2002.

Figure 4. Poverty-Reducing Spending in PRGF-Supported Programs: Pre-PRGF Year to 2001–02[1]
(In units as indicated; number of countries in parentheses)



Sources: National authorities; and IMF staff estimates.
[1]The figures in parentheses indicate the number of countries for which data are available.
[2]1999 in most cases.
[3]Refers to the average projected spending level for 2001–02.

was in place (2000).[19] With due caution in light of the small sample size, preliminary evidence indicates that progress on these indicators since the preprogram year was somewhat better than before the start of the PRGF-supported program.

Higher government spending on education and health, and the shift in the composition of public spending from current to capital outlays, will help facilitate poverty reduction and higher economic growth. In developing countries, public expenditure is a powerful tool for shaping equity or reducing poverty.[20] In particular, well-targeted and efficient public programs in education and health are essential to ensure that the poor have the skills needed to contribute to—and benefit from—economic development. Higher outlays for education and health in PRGF-supported programs, in combination with efforts to improve the efficiency and targeting of this spending (see below), can help facilitate higher economic growth. In a similar vein, programs also envisage higher outlays for capital expenditures, which include the provision of critical infrastructure. These outlays will rise, on average, by three-fourths of a percentage point of GDP in PRGF-supported programs, and will also climb as a share of total government outlays (Appendix Table A.1). In combination with the containment of current expenditures (see Section V), the improved composition of public expenditure envisaged in PRGF-supported programs constitutes an important ingredient in countries' poverty-reduction strategies. At the same time, it is important to ensure that public investment is productive, which may require complementary efforts to strengthen governance.[21]

[19]Additional indicators include primary school enrollment rate, infant mortality, under-five mortality, and the poverty headcount ratio. Data for 2000 are also available for Bolivia, whose PRGF-supported program started in 2001.

[20]See, for example, Vito Tanzi and Ke-young Chu, eds., 1998, *Income Distribution and High-Quality Growth* (Cambridge, Massachusetts: MIT Press); and Vito Tanzi, Ke-young Chu, and Sanjeev Gupta, eds., 1999, *Economic Policy and Equity* (Washington: International Monetary Fund).

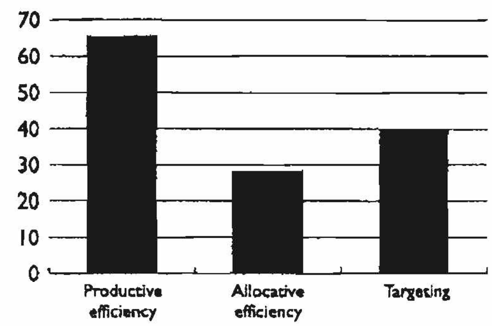
[21]See Vito Tanzi and Hamid Davoodi, 1998, "Corruption, Public Investment, and Growth," in Hirofumi Shibata and Toshihiro Ihori, eds., *The Welfare State, Public Investment, and Growth* (Tokyo: Springer).

In sum, while the available evidence indicates a good beginning in reorienting spending toward propoor activities, weaknesses in budgetary classification and reporting suggest due caution in this assessment. Given existing weaknesses in the data on poverty-reducing spending, a more precise assessment of how the composition of spending has been altered under PRGF-supported programs will have to await the strengthening of public expenditure management systems. While these improvements will only be fully realized over the medium term, there are several steps that could be taken in the short term to shore up the reporting of poverty-reducing spending (see Section VII).

Improve the Efficiency and Targeting of Spending in Key Sectors

Higher spending on poverty-reducing activities must be accompanied by improvements in efficiency and targeting to significantly improve social outcomes. Programs are seeking sizable increases in poverty-reducing spending. But this is not sufficient for reducing poverty, because the efficiency and targeting of these outlays must also be improved. The agenda of reform in this area is large, given that the poor reap a disproportionately small share of the benefits from education and health outlays in low-income countries, and a majority of studies show a weak relationship between government social spending and social outcomes.[22, 23] The limited scope for reallocating a large portion of public spending to poverty-reducing activities in the short run further underscores the need to realize improvements in this area.

Figure 5. Measures for Improving the Efficiency and Targeting of Public Spending in PRGF-Supported Programs
(Percent of countries)



Source: IMF staff estimates.

Enhancing the efficiency and equity of spending in key sectors, such as education and health care, is a critical component of countries' poverty-reduction strategies. More than three quarters of all PRGF-supported programs incorporate such measures (Figure 5). In many cases, these policy actions are drawn from the PRSPs and advice from the World Bank.

PRGF-supported programs are placing more emphasis on improving the efficiency and equity of spending than did ESAF-supported programs. Only one-third of ESAF-supported programs focused on this facet of expenditure policy. Moreover, PRGF-supported programs deal with these issues with more breadth and depth.

Two complementary but distinct aspects of efficiency have been addressed in PRGF-supported programs.

- The **productive** efficiency of spending can be improved by using a more productive mix of spending inputs—for example, shifting spending to critically needed nonwage inputs in health and education, such as medicines and textbooks; or making efficiency improvements that allow the government to provide the same level of public services with lower spending—for example, by reducing waste.

- The **allocative** efficiency of spending can be strengthened by reallocating public spending within sectors to programs that are most useful for meeting the government's policy goals. For example, a reallocation of spending from tertiary to primary education and to rural areas can poten-

[22]For an assessment of the evidence on the benefit incidence of government spending, see Ke-young Chu, Hamid Davoodi, and Sanjeev Gupta, 2000, "Income Distribution and Tax, and Government Social Spending Policies in Developing Countries," The United Nations University, World Institute for Development Economics Research, WP No. 214, December.

[23]See, for example, Deon Filmer and Lant Pritchett, 1997, "Child Mortality and Public Spending on Health: How Much Does Money Matter?" Policy Research Working Paper No. 1864 (Washington: World Bank); Karnit Flug, Karnit, Antonio Spilimbergo, and Erik Wachtenheim, 1998, "Investment in Education: Do Economic Volatility and Credit Constraints Matter?" *Journal of Development Economics*, Vol. 55 (April), pp. 465–81; Sanjeev Gupta, Marijn Verhoeven, and Erwin Tiongson, forthcoming, "The Effectiveness of Government Spending on Education and Health Care in Developing and Transition Economies," *European Journal of Political Economy*. For a recent study with a more optimistic assessment of the impact of public spending on health outcomes for the poor, see Sanjeev Gupta, Marijn Verhoeven, and Erwin Tiongson, forthcoming, "Public Spending on Health Care and the Poor," *Health Economics*.

tially enhance the efficiency of spending if the principal goal of education policy is to increase primary enrollment and completion rates.

The measures to improve productive efficiency vary, depending on country circumstances. A number of countries are improving the input mix by restraining the growth of the wage bill, thus providing room for increased or higher quality social services (The Gambia, Kenya, Lao PDR, Niger, Senegal, and Zambia).[24] On the other hand, some countries (Azerbaijan, Cameroon, Mali, and Uganda) are granting targeted wage increases, or decompressing the wage scale, so as to maintain or attract skilled workers, including workers in the social sectors. In some circumstances, further streamlining of public employment is also envisaged, as is a rehabilitation of infrastructure to enhance the returns from public investment. In Uganda, the efficiency of spending in a number of ministries is also expected to improve with the use of output-based budgeting.

To improve allocative efficiency, the share of spending in primary education and health will rise. A reallocation of spending towards primary education and health is envisaged in a number of countries (Benin, Ghana, Guinea-Bissau, Kenya, Rwanda, and Uganda). Spending in these areas is seen as important in meeting targets for immunization and/or lowering infant mortality; providing health care to pregnant women and/or the elderly; and improving access to kindergarten and/or primary school. Outside the social sectors, some countries also target a shift of spending from urban transportation projects to rural roads.

Policy measures are also envisaged to better target spending toward the poor. In transition economies, a common aim is to make social assistance a more effective instrument of poverty alleviation by targeting this spending to the poor. In a similar vein, some countries plan to replace subsidies that are enjoyed by all consumers—poor and nonpoor alike—with those that benefit only low-income groups. In other countries, the objective is to increase equity by improving the access of the poor to health care and education, facilitated by the elimination of primary school fees (e.g., Tanzania, Uganda). In general, measures to improve targeting are not very specific, and programs provide only general statements of principle.

There is substantial scope to improve the quality and specificity of expenditure advice in PRGF-supported programs. As more countries move to full PRSPs, there will be further opportunity to fully articulate specific measures, and for PRGF-supported program documents to cross-reference these measures and assess progress on earlier initiatives. Full PRSPs will also provide occasion to integrate more fully the policy advice available from development partners, including that found in the World Bank's Public Expenditure Reviews.

Implement Tax Policies That Simultaneously Improve Efficiency and Equity

Programs attempt to foster more efficient tax systems—which can facilitate growth—and improve the administration of taxes. To facilitate the higher growth necessary for poverty reduction, tax systems should be efficient—that is, they should minimize distortions to the best use of resources across the economy. Efficient taxation also requires that the tax system be impartially but effectively administered based on the rule of law. Building on the substantial progress to reform tax systems in the past, about two-thirds of tax-related measures under the PRGF-supported programs focus on improving the administration of the tax system, rather than on the design of the tax system per se. The average number of new tax measures per program request or review is 8, compared with 10 under the last annual ESAF-supported program.

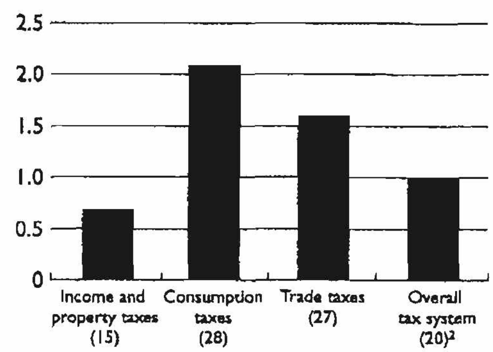
Tax policies in IMF programs have also sought more equitable taxation. Policy measures have included those that promote greater "horizontal equity"—that is, taxpayers with similar incomes are treated equally. There has been less emphasis on "vertical equity"—that is, making sure that high-income taxpayers pay higher taxes. This is because there is limited scope to implement progressive income taxes in low-income countries, given administrative constraints and the high share of agriculture and the informal sector in economic activity.

Tax revenues are expected, on average, to rise by about one percentage point of GDP over the three-year program period under the PRGF, based on higher receipts from indirect taxes (Appendix Table A.1). The likely effect of rising indirect taxes on the distribution of income is difficult to ascertain. While some studies indicate that the poor pay a higher share of their income for indirect taxes than other income groups do (i.e., these taxes are regressive), other studies suggest that indirect taxation is progressive.[25]

[24]Education and health spending is rising in these countries, with the exception of Kenya. This rise indicates that the share of spending being allocated to nonwage inputs (including capital outlays) is climbing. A similar picture emerges for the PRGF sample as a whole, where the wage bill is constant as a share of GDP, while education and health care spending is increasing (see Figure 1 and Appendix Table A.1).

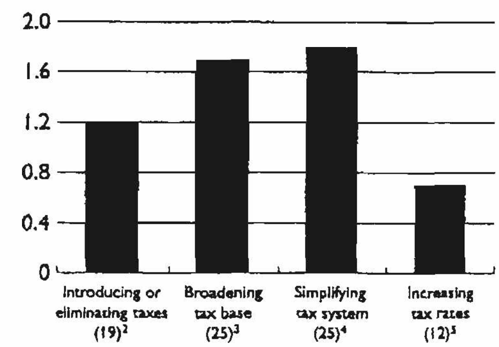
[25]For a review of tax incidence studies, see Chu, Davoodi, and Gupta, "Income Distribution and Tax, and Government Social Spending Policies in Developing Countries."

Figure 6. Tax Policy Measures in PRGF-Supported Programs by Type of Tax
(Number of measures per country)[1]



Source: IMF staff estimates.
[1]Number of countries implementing measures in each category indicated in parentheses.
[2]Measures that cover more than one category or the tax system as a whole.

Figure 7. Tax Policy Measures in PRGF-Supported Programs by Type of Reform
(Number of measures per country)[1]



Source: IMF staff estimates.
[1]Number of countries implementing each measure indicated in parentheses.
[2]Includes measures to introduce VAT, eliminate surtaxes, and make general reforms of the tax system.
[3]Includes removing tax exemptions and abolishing tax holidays.
[4]Includes reductions in the number of different tax rates and lowering of marginal tax rates.
[5]Includes temporary duties.

Most measures to change the tax system focus on consumption and trade taxes, rather than income and property taxation (Figure 6). In some countries (Ethiopia, Lao PDR, Lesotho, and Rwanda), this includes efforts to introduce a modern and broad-based value-added tax (VAT). Reform of trade taxes mainly encompasses measures to simplify import taxation and reduce distortions to resource allocation caused by high tariff rates (see below), at times in the context of regional integration movements.

Distributive considerations are important in some programs. In Mauritania, for example, a lower VAT rate was allowed for basic goods consumed by the poor, even though it increased the burden of administering the tax (see Section VIII). In Georgia, greater progressivity in the income tax was envisaged to improve income equality, and in Kenya, further adjustments of tax brackets and the personal tax allowance were undertaken to offset the effects on low-income groups of increases in indirect taxes.

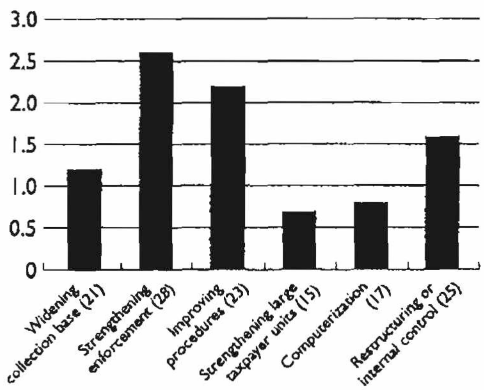
Programs are also supporting a more equitable and efficient tax system by reducing exemptions and broadening the tax base. Almost three-fourths of programs incorporate measures to broaden the tax base by removing exemptions (Cambodia, The Gambia, Guinea, Kenya, Lao PDR, Macedonia, Mauritania, Mozambique, Rwanda, Tajikistan, Tanzania, and Uganda), abolishing tax holidays, or paring special tax regimes that benefit foreign investors (Cambodia, Georgia, Lao PDR, Mauritania, Mozambique, and Rwanda).

Efficiency gains are also expected from the simplification of the tax system or reductions in high marginal tax rates. About three-fourths of all PRGF-supported programs seek to simplify the tax system and reduce distortions (Figure 7). This is to be accomplished, for example, by lowering tariff rates or reducing the number of import tariff rates (Albania, The Gambia, Ghana, Malawi, Mauritania, Mongolia, Niger, Sierra Leone, Tanzania, Vietnam, and Zambia); tightening tariff exemptions; reducing excessive excise tax rates; and simplifying the rate structure of the personal income tax.[26]

A wide array of measures are expected to strengthen tax administration. About half of these measures are devoted to improving taxpayer compliance by widening the revenue collection base and strengthening enforcement (Figure 8). These efforts include the introduction of taxpayer identification numbers (Cameroon, Chad, Mali, Senegal, and Tajikistan) and strengthened tax audits or inspections (Albania, Armenia, Benin, Cambodia, Georgia, Ghana, Macedonia, Mauritania, Moldova, Mozambique, Rwanda, and Uganda). Other measures seek to im-

[26]In some countries (e.g., Moldova and Guinea-Bissau), rates are increasing in light of revenue needs, especially in cases where these rates are low by international or regional standards.

Figure 8. Tax Administration Measures in PRGF-Supported Programs
(Number of measures per country)[1]



Source: IMF staff estimates.
[1]Number of countries implementing each measure indicated in parentheses.

prove the technical capacity and organization of the revenue authorities through computerization and improved operating procedures, including improvements for large taxpayer units (Bolivia). The majority of tax administration measures focus on the domestic tax system, and a larger share of customs measures are subject to conditionality (i.e., the measures are prior actions, performance criteria, or structural benchmarks under the program).

PRGF-supported programs place slightly less conditionality on tax measures than the ESAF-supported programs did. PRGF-supported programs average between two and three tax measures subject to conditionality per annual program request or review; about half take the form of structural benchmarks. This average compares with about three such measures per country under the last ESAF-supported program. Furthermore, the percentage of all tax measures subject to conditionality has declined. These developments reflect efforts to streamline conditionality (see Section VI).

Distributive aspects of taxation are not always discussed in PRGF-supported program documents. As poverty and social impact analysis (PSIA) is strengthened (see Section VIII), the implications of taxation on income distribution and poverty reduction can be expected to be treated more systematically and in greater depth.

A vigorous program of technical assistance will be required to achieve continued progress in modernizing tax administration. Despite the impressive strides made in this area, there is a long road ahead to building modern and efficient tax administrations in PRGF-supported countries. A well-coordinated effort among development partners is needed to help accelerate the pace of improvements in domestic capacity.

V Key Feature 4: Ensuring Appropriate Flexibility in Fiscal Targets

This key feature sets out the expectation that fiscal targets in PRGF-supported programs should be designed in a manner that allows greater flexibility in accommodating higher public expenditures and accommodating unexpected changes in revenue or financing.

The flexibility of fiscal targets under PRGF-supported programs can be analyzed from a number of angles. One perspective is to assess whether the fiscal framework in these programs is permitting an increase in public expenditures to accommodate the government's poverty reduction strategy. To maintain macroeconomic stability, this should be consistent with the program's targets for external balances, inflation, and credit growth. Another aspect of flexibility in program design is how targets for the budget deficit are adjusted when foreign aid or revenues are different from what is anticipated—for example, are budget deficits allowed to increase when more foreign financing is available? The first section below assesses the design of fiscal targets, and the second examines the adjusters for these targets built into PRGF-supported programs.

Fiscal Targets Under PRGF-Supported Programs

PRGF-supported programs incorporate higher public expenditures. On a commitment basis, primary expenditures (i.e., public expenditures net of interest payments) are targeted to rise by three-fourths of a percentage point of GDP to 22.5 percent of GDP—almost two percentage points higher than envisaged in the last ESAF-supported program (Table 4). On average, almost all of the targeted increase in public outlays relative to the pre-PRGF year will be absorbed by higher capital expenditures, and current outlays in PRGF-supported programs—including programs for wages—will remain roughly constant as a share of GDP (Appendix Table A.1). This pattern of adjustment augurs well for these countries' growth prospects.[27]

PRGF-supported programs have deficit targets that are similar to those under the preceding ESAF-supported programs. PRGF-supported programs target similar deficits on both a commitment and a cash basis, because lower interest burdens and rising revenues and grants have facilitated higher primary outlays. On a cash basis, changes in the deficit (relative to the pre-program year) are higher under PRGF-supported programs, reflecting greater repayment of arrears.

As was the case during ESAF-supported programs, governments are expected to reduce their debt to the banking system on a net basis. PRGF-supported programs, therefore, are designed to be consistent with a further strengthening of public finances and the maintenance of macroeconomic stability—as evidenced by the similarity in macroeconomic targets under PRGF- and ESAF-supported programs (Section III).

The fiscal framework in PRGF-supported programs varies across countries. Not all countries, for example, are able to accommodate higher public spending (even if foreign-financed), because this may not be compatible with macroeconomic stability or a sustainable level of public debt.[28] Post-stabilization countries[29] incorporate larger increases in expenditure, and

[27]See, for example, George Mackenzie, David Orsmond, and Philip Gerson, 1997, "The Composition of Fiscal Adjustment and Growth: Lessons from Fiscal Reform in Eight Economies," IMF Occasional Paper No. 149 (Washington: International Monetary Fund); Alberto Alesina, Roberto Perotti, and José Tavares, 1998, "The Political Economy of Fiscal Adjustments," *Brookings Papers on Economic Activity: 1* (Washington: Brookings Institution); and Sanjeev Gupta, and others, "Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries," IMF Working Paper 02/77 (Washington: International Monetary Fund).

[28]Substantial foreign inflows (even when highly concessional) can exert pressure on both the real exchange rate and domestic prices. Many countries are currently grappling with the problems stemming from large foreign inflows (Malawi, Mozambique, Uganda).

[29]Post-stabilization countries are defined as those that (1) achieved a cash deficit of less than 2 percent of GDP (after grants) in 1999; (2) had inflation of less than 10 percent in 1999 and projected inflation below 10 percent in 2000–02; and (3) had positive economic growth in 1999. This group comprises Azerbaijan, Benin, Cambodia, Cameroon, Macedonia, Mauritania, Mozambique, Senegal, Tanzania, and Uganda.

Table 4. Fiscal Targets in PRGF- and ESAF-Supported Programs[1]
(Unweighted averages; in percent of GDP unless otherwise indicated)

Data	Under the PRGF[2] Pre-Program Year[4]	3-Year Program Average[5]	3-Year Program Average Minus Pre-Program	Under the ESAF[3] Pre-Program Year[6]	3-Year Program Average[7]	3-Year Program Average Minus Pre-Program
Total revenue and grants	20.3	21.4	1.1	19.4	20.3	0.9
Revenue	17.1	17.9	0.8	16.3	17.3	1.0
Grants	3.2	3.5	0.3	3.1	3.0	–0.1
Total expenditure and net lending	23.6	24.4	0.8	22.8	23.2	0.3
Primary expenditure[8]	21.6	22.5	0.9	20.0	20.6	0.6
Overall balance (commitment basis)	–3.3	–3.0	0.3	–3.5	–2.9	0.5
Arrears	–0.1	–0.5	–0.4	–0.3	–0.4	–0.1
Overall balance (cash basis)	–3.5	–3.6	–0.1	–3.8	–3.4	0.4
Overall balance (cash basis) excluding grants	–6.7	–7.0	–0.4	–6.6	–6.2	0.4
Deficit financing	3.5	3.6	0.1	3.8	3.4	–0.5
Domestic	0.9	–0.2	–1.1	1.0	–0.2	–1.3
Bank	0.1	–0.6	–0.8	0.3	–0.7	–1.0
Non-Bank	0.2	–0.1	–0.4	0.3	–0.1	–0.3
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External[9]	2.6	3.7	1.1	2.8	3.6	0.8

Sources: National authorities; and IMF staff estimates.
[1]Excludes Moldova, which did not have an ESAF program; and Guinea-Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.
[2]Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.
[3]Refers to targets set out in the last annual ESAF arrangement.
[4]In most cases, the pre-PRGF year is 1999.
[5]For the sample as a whole, data refer to averages for two years for six countries, and for one year for five countries.
[6]Refers to the year before the last annual ESAF arrangement. In most cases, it refers to 1997.
[7]For the sample as whole, data refer to averages for two years for three countries, and for one year for four countries.
[8]Total expenditure and net lending minus interest payments.
[9]Includes financing not identified at the time documents were submitted to the Board.

the overall fiscal deficit, than other countries with PRGF-supported programs (Appendix Table A.2). Deficits in the post-stabilization countries are targeted to increase by about one-half of a percentage point of GDP, and in other PRGF-supported program countries the fiscal balance will remain roughly unchanged and larger than average.[30] Revenue increases targeted under PRGF-supported programs are also less ambitious in the post-stabilization countries, although this could reflect their healthier revenue generation before the start of the PRGF-supported program. These considerations suggest a sizable degree of flexibility in program design, because there is no "one size fits all" approach to fiscal adjustment.

While revenues will rise under PRGF-supported programs, the projected increase is smaller than under ESAF-supported programs. Non-HIPCs anticipate more progress in raising revenues than the HIPCs (Appendix Table A.3); furthermore, HIPCs expect smaller increases in their revenues than under their last ESAF-supported program. This may reflect myriad factors, including more realism in revenue projections and a less pressing need to generate additional fiscal resources in the face of sizable debt relief. Nevertheless, these less ambitious targets suggest the need for continued vigilance on the revenue effort in HIPCs, which will be necessary to secure the resources for higher poverty-reducing spending over the medium term.

[30]Flexibility in this respect is largely similar to that under the last ESAF-supported program when the higher foreign financing for post-stabilization countries under their PRGF-supported programs is taken into account.

Flexibility in Accommodating Changes in Financing or Revenues

One critical aspect of flexibility is how program targets for the government budget accommodate deviations in expected foreign financing, revenues, or privatization proceeds. Of particular interest in this context is (1) whether fiscal targets are sufficiently flexible to allow governments to increase the budget deficit when foreign financing is higher than expected; (2) whether PRGF-supported programs identify contingent expenditures to be expanded or protected in cases where revenues or financing is significantly different from what is expected; and (3) how program targets are adjusted in response to shortfalls in foreign financing, revenues, or privatization receipts.

PRGF-supported programs show greater flexibility than ESAF-supported programs in accommodating higher spending when unanticipated foreign financing (including financing in the form of grants) is available. This is especially true of new PRGF-supported programs, where more than one-third of programs contain such adjusters. Under the ESAF-supported programs, by contrast, these adjusters were present in fewer than 10 percent of countries. Transformed PRGF-supported programs use these adjusters with less frequency than new programs. This may be because the start of a program provides a more ripe opportunity for addressing technical issues of program design, including adjusters.

PRGF program targets accommodate shortfalls in foreign financing, although slightly less than under ESAF programs. About two-thirds of PRGF-supported programs allow for an upward adjustment in targets for domestic financing of the deficit when foreign financing is lower than expected. In most cases, the accommodation is only partial. Adjusters for shortfalls in privatization proceeds, or accommodation for other shocks, are also present in about one-fourth of the programs.

One area where relatively little progress has been made is in the identification of contingent expenditures, especially in transformed PRGF-supported programs. In part, this is because PRSPs have not been identifying the specific expenditures that would be increased/decreased in case of excess/shortfall in foreign financing compared with programmed levels. Only four countries (Cameroon, Guinea-Bissau, Niger, and Rwanda) identify the spending that would be increased if foreign financing were higher than anticipated. In most cases, this spending includes that in the social sectors. If a broader definition of contingency spending is used—one that includes spending that is to be protected in case of financing shortfalls—then about a third of all programs have identified these outlays.

Another way to assess flexibility is to judge whether alternative fiscal adjustment paths were discussed with country authorities, and whether the authorities were able to choose from among several different alternatives. Information on this dialogue, however, is not systematically available in PRGF-supported program documents (see below).

Other assessments generally agree with those of the staff on fiscal flexibility. In the survey of authorities, about two-thirds agree that there is greater fiscal flexibility in accommodating both social spending and increased foreign financing, and fewer than 25 percent disagree on either fiscal flexibility question. Views of NGOs and donors were likewise largely in agreement on the assessment of progress in fiscal flexibility.

VI Key Feature 5: More Selective Structural Conditionality

This key feature sets out the expectation that conditionality in PRGF-supported programs should focus on the IMF's core areas of expertise and limit conditionality to key measures for the program.

Limit Conditionality to Key Measures

Considerable progress has been made in streamlining structural conditionality on the IMF's core areas of expertise. The mandate in this area is that measures specified in the PRGF-supported programs should cover only those areas where the IMF has primary responsibility (and in these areas conditionality should be used parsimoniously). The only exception to this rule would be where a structural measure has such a direct, critical macroeconomic impact that the PRGF-supported program would be derailed unless the measure was implemented.[31] Substantial progress has been made in this regard.

This streamlining of conditionality reflects the changing roles and modalities of collaboration in the PRSP framework between the IMF and the World Bank. In July 2001, the IMF and World Bank Executive Boards endorsed a strategy to strengthen collaboration between the two institutions on conditionality. Based on principles agreed to in 1998, the key features in the strengthened framework are clarity about responsibility, early and effective consultation, and separate accountability. The Boards also agreed that, to further clarify the delineation of responsibilities, it would be useful to adopt the practice of identifying one institution as the "lead agency" responsible for designing and monitoring conditionality in each policy area. In the future, Board documents should transparently and systematically set out the staff views of the lead agency on various issues and conditionality as an input to Board discussions, including more effective use of Bank inputs to Article IV consultations and IMF inputs in the context of the Bank's country assistance strategies, economic and sector work, and programmatic lending.[32]

Overall, PRGF-supported programs have shown a strong shift toward more streamlined conditionality.[33] The average number of structural conditions (performance criteria and prior actions) has declined from more than eight in the most recent ESAF-supported annual programs approved before December 1999 to six for programs approved since July 2000 (including new PRGF-supported programs and continuation of programs approved before 2000). When the scope of measures is broadened to include structural benchmarks, the average number of structural measures has declined from 16.9 in the last ESAF-supported annual programs approved before December 1999 to 11.8 for programs approved since July 2000 (Table 5). Moreover, implementation of the guidelines has been increasingly consistent: the average number of structural measures has declined from 13 for programs approved in 2000 to fewer than 11 for those approved in 2001. This reduction in the number of structural measures has been uneven across programs, though, as indicated by a relatively large, although declining, standard deviation (falling from 8.1 for programs approved in 2000 to 5.2 for those approved in 2001).

Streamlining is evident across forms of conditionality and other program measures (Figure 9). The reduction in conditionality was particularly sig-

[31] *Poverty Reduction and Growth Facility (PRGF)—Operational Issues*, December 13, 1999. These guidelines are also spelled out in *Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs*, August 16, 2000.

[32] *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality*, August 23, 2001, available via Internet: http://www.imf.org/external/np/pdr/cond/2001/eng/collab/coll.htm. *Conditionality in Fund-Supported Programs: External Consultations*, July 17, 2001, available via Internet: http://www.imf.org/external/np/pdr/cond/2001/eng/collab/econ.htm.

Streamlining Structural Conditionality: Review of Initial Experience, July 10, 2001, available via Internet: http://www.imf.org/external/np/pdr/cond/2001/eng/collab/071001.pdf. International Monetary Fund, PIN No. 01/92, September 4, 2001, "IMF Concludes Discussions on Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality."

[33] *Streamlining Structural Conditionality: Review of Initial Experience*, July 10, 2001. *Conditionality in Fund-Supported Programs: External Consultations*, July 17, 2001.

Table 5. Streamlining Structural Conditionality

	ESAF Arrangements	PRGF Arrangements
Total conditions and benchmarks	16.9	11.8
Average core conditions and benchmarks	7.0	6.9
Share of measures in core	41.0	58.0
Average shared conditions and benchmarks	3.7	2.3
Share of measures in shared areas	22.0	20.0
Average non-core conditions and benchmarks	6.2	2.5
Share of measures in non-core areas	34.6	21.9

Source: IMF country documents.

nificant for prior actions and benchmarks, whose number on average was cut by 47 percent to three and six conditions per program, respectively. The average number of performance criteria, already moderate under ESAF-supported programs, has declined further to fewer than three measures per program. In some programs, streamlining benefited from efforts to limit conditions that specify multiple steps to achieve the same objective, such as the introduction of a VAT or the design and implementation of civil service reform.

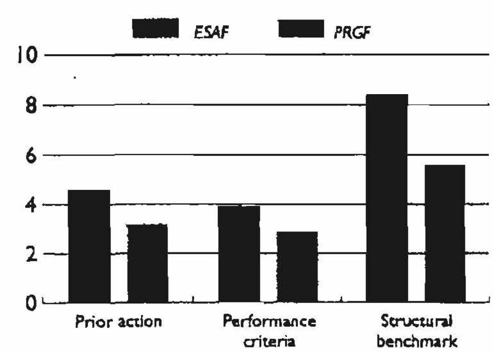
Confine Conditionality to Measures in the IMF's Domain

Conditionality has been increasingly focused on the IMF's core areas of expertise (Box 4).[34] In PRGF-supported programs approved since July 2000, 58 percent of structural measures focused on the IMF's core areas, compared with 41 percent in earlier programs. The proportion of measures in core areas has been even larger for new PRGF-supported programs approved since July 2000 (68 percent), compared with transformed PRGF-supported programs (52 percent). The number of conditions in core areas has continued largely unchanged in absolute terms, while those in areas shared with the World Bank and in areas outside the IMF's core responsibilities have fallen by roughly one-third and three-fifths, respectively (Table 5).

The concentration of measures under PRGF-supported programs shows a clear shift to measures related to fiscal policy (Figure 10). Measures in the areas of fiscal management and fiscal transparency rose from 15 percent of structural measures in the ESAF subsample to 31 percent in the PRGF subsample (see Section VII). Tax policy and administration measures roughly maintained the same share in both the subsamples (16 to18 percent). The concentration of structural conditionality in the fiscal area is consistent with the renewed emphasis on poverty reduction in the PRGF and the related need to maintain revenue and ensure that fiscal resources are spent efficiently for appropriate purposes.

For areas outside the IMF's domain, conditionality in most recent programs has generally been applied when such measures were critical to the country's fiscal and/or external targets (Box 5). In such cases most staff reports provided justification for their inclusion in the program. Justification was clear in 60 percent of all PRGF-supported program reports and in 73 percent of reports for new PRGF-supported programs

Figure 9. Streamlining Conditionality in PRGF-Supported Programs
(Average number of conditions per program)



Sources: National authorities, country policy intentions documents; and IMF staff estimates.

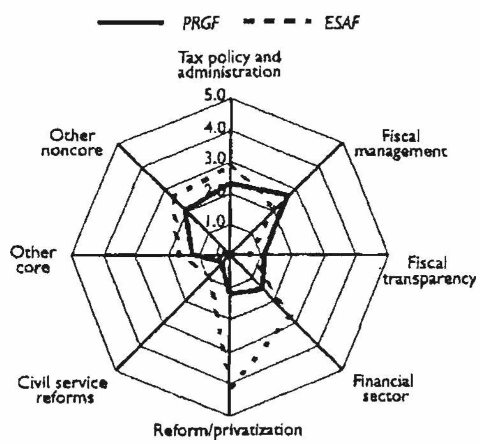
[34]In shared areas of responsibility, the lead role between the Bank and the IMF is to be decided on a case-by-case basis.

Box 4. Structural Conditionality and Areas of IMF Expertise

Core	Shared	Non-Core
Tax policy	Financial sector reforms	Public enterprise reforms
Fiscal transparency	Trade policy	Privatization
Fiscal management	Private sector promotion	Marketing and pricing reforms
Monetary policy		Civil service restructuring
Foreign exchange regime		Social safety nets
Exchange rate policy		Monitoring poverty reduction
Macroeconomic data		Sectoral policies
Tax and customs administration		

Source: Adapted from *Poverty Reduction and Growth Facility—Operational Issues* (SM/99/293, December 13, 1999).

Figure 10. Composition of Structural Conditionality in PRGF-Supported Programs
(In averages per request or review)



Sources: National authorities, country policy intentions documents; and IMF staff estimates.

approved since July 1, 2000. For example, the importance of ensuring a healthy banking sector, and thus containing the fiscal cost of restructuring, was particularly clearly presented in the case of Vietnam. Financial sector reforms have also taken center stage in Mozambique's PRGF-supported programs, and a clear case has been made in the relevant staff report. In countries where governance is a critical issue, such as Kenya and Cameroon, programs have also focused on fiscal transparency as well as governance-related issues not in the IMF's core area of expertise.

The streamlining of structural conditionality is being complemented with a deepened collaboration with the World Bank. With the IMF focusing its conditionality on its core areas of expertise, conditionality in noncore areas has increasingly been picked up by the World Bank. In more than two-thirds of such cases where the IMF retained conditionality in noncore areas (mainly because these were critical to reach the macroeconomic objectives of the program), this has been supplemented by the World Bank, either through its own conditionality in its lending programs, or by providing policy advice in cases where an appropriate lending program was absent. In the subsample of ESAF-supported programs, this was true in only about half of all cases. In contrast, in areas where the IMF and the Bank share responsibility, efforts have been directed more toward avoiding duplication. In these areas, the share of IMF conditionality that has been supplemented by World Bank conditionality/advice has remained at around 50 percent.[35] These shares may increase as more countries are covered by the World Bank's Poverty Reduction Support Credit, simplifying coordination across instruments.

External comments on streamlining structural conditionality broadly concurred with the factual assessment set out above, but views were mixed as to the implications and advisability of this shift. Some donors and NGOs expressed the view that streamlining structural conditionality is an impor-

[35]Few, if any, staff reports explicitly discuss cases where the World Bank was not involved. Therefore, in cases where staff reports did not discuss World Bank involvement, the presumption is that the particular conditionality was not supplemented by World Bank conditionality or policy advice.

Box 5. Structural Conditionality Boxes—What Story Do They Tell?

Starting in May 2001, staff reports for PRGF-supported program requests and reviews have routinely included a box on structural conditionality. These boxes follow a standard format specifying the status of topics covered by conditionality previously in IMF-supported programs, the structural conditionality in the current program, areas now covered by World Bank conditionality or conditionality of other institutions, and areas that are no longer covered in Bank or IMF conditionality.

One clear trend seen from these boxes is the phasing out of structural conditionality related to privatization. Whereas privatization measures used to constitute a significant part of structural conditionality in many PRGF-supported arrangements, recent programs include no such conditionality, except where it had macroeconomic importance (e.g., Ghana and Tajikistan). In most cases the structural agenda for privatization has been taken over by the World Bank.

The streamlining of structural conditionality also affects other areas. In the programs with Burkina Faso and Mali, IMF conditionality in the energy and telecommunications sectors has been phased out, as has conditionality relating to drafting of procurement and investment codes in the program with The Gambia. In all of these cases, conditionality has been taken over by the World Bank. The streamlining efforts have also extended to the area of the financial system (an area with shared responsibilities between the IMF and the World Bank); in most of these cases (e.g., Mali, Mongolia, and Niger) the World Bank has also taken over the conditionality from the IMF.

These efforts at streamlining structural conditionality have been pursued flexibly. In cases where measures have been deemed to be essential on macroeconomic grounds, conditionality has been retained. For example, the programs with Azerbaijan, Cameroon, and Ghana include conditionality in the energy sector. In the cases of Azerbaijan and Ghana, domestic arrears buildup or domestic debt buildup and inappropriate pricing policies are posing serious risks to macroeconomic stability, whereas in the case of Cameroon, the conditionality—related to the formulation of a reform strategy for the oil sector—is viewed as essential for enhancing the economy's growth prospects. Other cases where sector-specific problems have important macroeconomic repercussions are Cambodia (logging sector), Mali (cotton), and Senegal (groundnuts).

tant element in strengthening program ownership, but also thought there was a risk of serious gaps in program monitoring between the Bank and the IMF. Other donors and NGOs (including some of the same cited immediately above) also expressed a concern that if structural conditionality is added by the Bank to the same extent that it is dropped by the IMF, there will be no net change in conditionality. Still other NGOs thought that notwithstanding streamlining to date, IMF conditionality was still too extensive.[36]

[36]Measures directly focused on poverty reduction generally fall within the World Bank's areas of expertise. However, 18 percent of requests for or review of programs supported under the ESAF and 22 percent of those under the PRGF had performance criteria, prior actions, benchmarks, or review topics directly focused on poverty reduction. Most of these related to expenditure allocation.

VII Key Feature 6: Measures to Improve Public Resource Management and Accountability

This key feature emphasizes the needs for public expenditure management measures that promote transparency and accountability in the use of public resources.

Almost all PRGF-supported programs place strong emphasis on strengthening governance through improved PEM.[37] On average, each PRGF-supported program request or review includes between four and five new measures to strengthen PEM. Depending on the weaknesses of PEM capacity, the prominence of PEM measures varies widely, ranging from no policy actions in Ethiopia to 16 measures in Azerbaijan and 20 in Rwanda in their most recent programs.

The majority of these measures focus on strengthening budget execution, most notably with respect to the operations of the treasury and improving expenditure procedures (Figure 11). This reflects, in part, a need to strengthen the monitoring of fiscal performance under the program. Examples include introducing an integrated computerized fiscal and accounting information system to manage central government revenues and expenditures (Bolivia, Mozambique); introducing commitment control systems (Georgia, Ghana, Kenya, Malawi, Mozambique, Tajikistan, and Uganda); adopting modern principles of fiscal responsibility and transparency (Mozambique); and reforming procurement procedures (Azerbaijan, Cameroon, Guinea-Bissau, Kenya, Madagascar, and Mauritania). As part of the effort to ensure that public resources devoted to poverty reduction are reaching their intended uses—for example, that spending allocated for primary education actually reaches schools at the local level—about one-third of the countries in the study have also implemented expenditure tracking surveys.

With respect to budget formulation, a number of countries are strengthening budget classification, with a view to assisting efforts to identify and track poverty-reducing spending. This has initially focused on improving the reporting of broad-brush categories of social expenditure, and preparation of quarterly reports on budget execution of social spending. Other more general improvements in budget formulation could also be expected to strengthen the ability to track poverty-reducing outlays, including improved expenditure classification and implementation of a medium-term expenditure framework for priority sectors, particularly education and health.

In the area of budget reporting, programs have emphasized more rigorous auditing. This has involved establishing and staffing audit agencies (Azerbaijan, Cameroon, Cambodia, and Tajikistan) and the submission of accounts to the Auditor General. More timely fiscal reporting has also been incorporated in a number of programs. More generally, a number of countries have also sought to incorporate anticorruption strategies (Benin, Georgia, Ghana, Kenya, Lesotho, and Malawi).

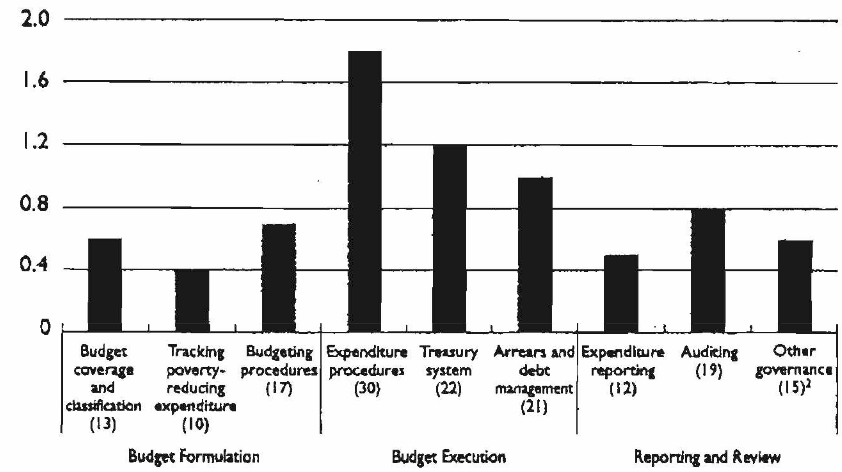
Conditionality is placed on a large percentage of PEM measures. More than half of the PEM measures in country programs are included as prior actions, performance criteria, or structural benchmarks. These measures are found in all but one country in the sample; on average, each new program request or review contains about three measures with conditionality. As with the population of PEM measures as a whole, conditionality focuses primarily on measures linked to budget execution—an area (along with reporting) where PEM systems are relatively weak.[38] Indicative of the high importance placed on strengthening PEM, about 40 percent of the conditionality in the PEM area takes the form of prior actions and performance criteria.

PRGF-supported program countries have largely been successful in meeting conditionality in the PEM area. Calculations based on the limited sample of measures for which data are available on the sta-

[37]The issue of governance goes beyond the management of public resources. While this is recognized, other aspects of governance, such as the functioning of the legal system, the enforcement of contracts and corruption are outside the scope of this review. These other aspects of governance can affect macroeconomic performance.

[38]See the World Bank/IMF Board paper, *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)*, March 22, 2002.

Figure 11. PEM Measures in PRGF-Supported Programs
(Number of measures per country)[1]



Sources: IMF staff estimates.
[1]Numbers in parentheses refer to the number of countries implementing the particular PEM measure.
[2]Comprises miscellaneous measures to improve governance (e.g., the creation of anti-corruption commissions).

tus of implementation showed that only half of all measures were strictly observed. Within a year of the due date, however, about 90 percent of all measures were implemented. This finding confirms the view that PEM measures often take longer to implement than envisaged, even with strong commitment on the part of the authorities. As could be expected, PEM improvements linked to stronger forms of conditionality (prior actions and performance criteria) fared slightly better than average. There is no systematic pattern regarding which kinds of PEM reforms were associated with the greatest degree of slippage.

PRGF-supported programs place more emphasis on strengthening PEM capacity than the ESAF-supported programs. On average, the number of measures, both with and without conditionality, has increased by about one-third (in line with Section VI above). As with the ESAF-supported programs, the majority of measures under the PRGF-supported programs concern budget execution, and reporting takes on added importance, reflecting the greater emphasis placed on auditing and anticorruption efforts.

Despite the strides made in the PEM area, a substantial unfinished agenda of reform remains, including making budgetary data more comprehensive and disseminating it to the public. The PRSP process has led to a more open debate on fiscal policies and a clearer articulation of the government's policy intentions. The timely provision of comprehensive budgetary data can help ensure that fiscal policies and objectives are open to public debate. Many countries, however, fall short of this standard.

Fiscal data often are not comprehensive. In roughly one-third of countries, there are still considerable differences between budget coverage and the Government Finance Statistics (GFS) definition of the general government, often because of substantial extra budgetary activities. Analysis based on the fiscal modules for countries conducted under the Report on the Observance of Standards and Codes (ROSC) shows that it is rare for budgets to provide information on contingent liabilities, tax expenditures, or quasi-fiscal activities.[39] Few budgets provide detailed information on the government's medium-term fiscal plans, and only about half fully capture donor funds in the budget in a timely manner. In addition, spending outcomes often differ substantially from the budget, limiting the usefulness of the budget as an indicator of the government's fiscal policy.

The dissemination of fiscal information is at times incomplete and subject to considerable delays. Most

[39]Fiscal modules for the ROSC have been completed for 12 of the 35 countries in the PRGF sample. Bank and IMF staff have also conducted assessments of the capacity of public expenditure management systems to track poverty-reducing spending for 20 of the HIPCs in the sample during 2001.

countries do not publish budget outturn data on at least a quarterly basis and within four weeks of the end of the period. Those that do often provide data that are highly aggregated and that capture only part of the government's fiscal operations. Similarly, only about half of the countries publish data on public debt. Furthermore, final audited accounts are provided to legislatures with a substantial lag (more than one year) in many countries.[40] These results underscore the need for continued close attention to PEM as an integral component of PRGF-supported programs—not only to enhance fiscal discipline, but also to improve the quality of the PRSP process.

A stepped-up program of technical assistance will be indispensable for strengthening PEM systems. In light of these weaknesses in PEM capacity, a vigorous program of technical assistance remains necessary. PRGF-supported programs in HIPCs can draw on the country action plans recently prepared in collaboration with Bank and IMF staff, which, among other things, delineate the areas in which technical assistance could be used.

External views are broadly in agreement with the staff assessments on PEM. In their formal and informal submissions for the review, donors generally agreed on the importance of PEM work and progress to date. The survey of the authorities in PRGF countries likewise reveals strong agreement that there is greater emphasis on improved management and accountability in the use of public resources under the PRGF. However, many donors and PRGF country authorities also expressed the view that there was a need for greater harmonization of PEM initiatives to reduce duplication and limit the burden on country authorities.[41]

[40]This result occurs in part because in Francophone countries, public accounts are checked in detail for several successive years, so as to verify consistency between treasury balances (stocks) and annual budget outcomes (flows). Therefore, these countries do not present final audited accounts within one year.

[41]In this context, the World Bank and the European Commission have recently launched the Public Expenditure and Financial Accountability Program to spur greater coordination. In addition, the action plans for strengthening the tracking of poverty-reducing spending in 24 HIPCs (recently prepared in collaboration with Bank and IMF staff) are being integrated with action plans developed through other Bank instruments, and will be used to coordinate donor efforts better. See the joint Bank-IMF Executive Board paper, *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)*, March 22, 2002.

VIII Key Feature 7: Social Impact Analysis of Major Macroeconomic Adjustments and Structural Reforms

This key feature emphasizes that the distributional impacts of major macroeconomic or structural reforms should be considered and reported on in PRGF documents together with any countervailing measures to offset the impact of these reforms on the poor.

More than half of all PRGF-supported programs refer to some form of PSIA. PSIA consists of the analysis—ex ante, during implementation, and ex post—of the positive and negative impact of country policies on the well-being of the poor and other groups. When PSIA is defined broadly as instances where program documents describe the potential effects of one or more economic policies on the poor, about 60 percent of such programs include some form of PSIA. When PSIA is defined strictly to include instances where a study was undertaken to assess the effects of specific policies—"formal" PSIA—only one-third of PRGF-supported programs included such analysis. Furthermore, the majority of policies in PRGF-supported programs with important social impacts are not covered by formal or informal PSIA (Figure 12).

PSIA, broadly defined, is conducted on a much wider scale than it was under the ESAF. This has occurred even though ESAF-supported programs contained a larger number of measures with potentially adverse effects on the poor in both the macroeconomic and structural areas.[42] About half of ESAF-supported programs incorporated some type of social safety net to address the adverse effects of reforms, however, suggesting that a good deal of the PSIA underpinning the design of these social safety nets may have been unreported in Board documents. Nevertheless, PRGF-supported programs report both more PSIA, and a larger share of countervailing measures, for almost all types of reforms.

The coverage of PSIA by type of reform varies. Coverage of contractionary expenditure, trade and exchange rate reform, and domestic pricing reform is widest (Figure 12). In many important categories of reform, however (e.g., revenue measures, civil service reform, and privatization), the coverage of PSIA is modest. A number of PRGF-supported program documents recognize that the use of PSIA has been limited in the past (Ethiopia, The Gambia, Mongolia, Mozambique, and Senegal), and note that assistance from the World Bank and other development partners will be instrumental in further progress in this regard.

PSIA is influencing programs in both the design of economic policies and the formulation of countervailing (compensatory) measures. In some cases, this has led to a modification in policies, because of concern over the possible adverse effects on the poor. For example, PSIA undertaken in Uganda led to a change in plans to liberalize the sugar industry.

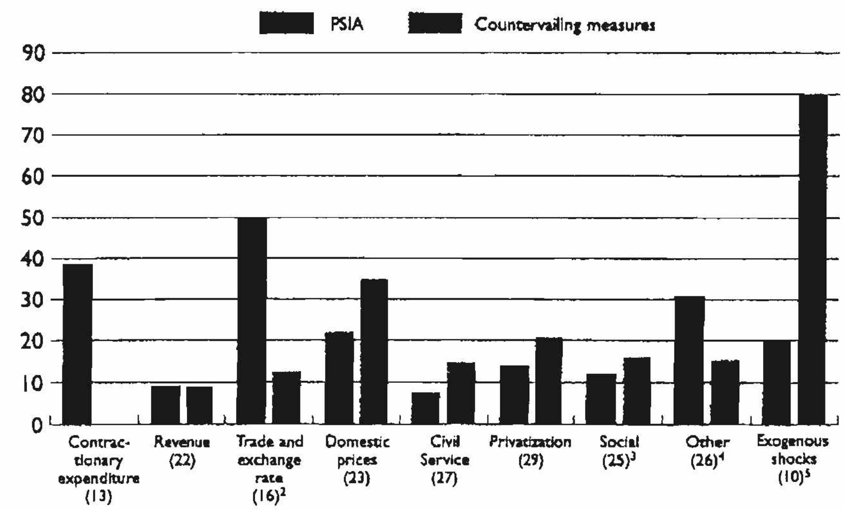
In Senegal, rather than completely eliminating the subsidy for diesel and kerosene, a 15 to 20 percent subsidy was maintained, because of concerns about the impact of higher prices on the poor. In Cambodia, large-scale retrenchment of civil servants was delayed until adequate safety nets for retrenched government employees could be put in place.

About two-thirds of PRGF-supported programs include countervailing measures. These countervailing measures aim to offset the potentially adverse short-run effects of exogenous shocks or macroeconomic or structural reforms on the poor. These actions tackle the adverse effects of reforms that are not addressed by changes in policy design. Countervailing measures are most often found in response to changes in domestic prices, privatization, and exogenous shocks (such as changes to the terms of trade and natural disasters). Examples are a lowering of the withholding tax on cola nuts (Burkina Faso), and VAT exemptions provided for basic products (Mauritania); severance payments for employees affected by privatization (Mongolia and Vietnam) and retrenched civil servants (Kenya); higher spending on targeted social benefits to offset higher electricity tariffs and provision of limited quantities of free electricity for the poor (Georgia); and cross-subsidies and targeted tax relief to soften the blow on the poor from increases in petroleum and utility prices (Ghana).

[42]For a review of social policies under IMF-supported programs, including ESAF-supported programs, see Sanjeev Gupta and others, 2000, *Social Issues in IMF-Supported Programs*, IMF Occasional Paper No. 191 (Washington: International Monetary Fund).

Figure 12. Poverty and Social Impact Analysis (PSIA) in PRGF-Supported Programs and Countervailing Measures[1]

(Percentage of reforms covered by PSIA and countervailing measures)



Sources: IMF staff estimates.

[1]Numbers in parentheses refer to the number of countries implementing the particular reform measure.

[2]Includes reforms in international trade policy and exchange rate adjustments.

[3]Includes health, education, and pension reforms.

[4]Includes agricultural, financial, and legal reforms; changes in user fees; and decentralization measures.

[5]Includes terms of trade shocks, natural disasters, and security/refugee crises.

Countervailing measures in PRGF-supported programs are not always accompanied by PSIA. In some cases, programs incorporate policy actions to address the adverse effects of reform measures, even though program documents do not refer to any PSIA indicating the need for such. As can be observed in Figure 12, documents are more likely to discuss countervailing measures than PSIA for increases in domestic prices, civil service reform, privatization, and changes in user fees. The number of measures accompanied by formal PSIA is even smaller.[43] As experience in implementing PSIA deepens, it is expected that a higher share of countervailing measures will be designed with the benefit of formal analytical studies.

PSIA has been widely absent in the six full PRSPs in the sample, with the exception of Mauritania and Uganda.[44] Data limitations, weak national capacity, and a lack of donor coordination are important obstacles to more widespread and systematic PSIA.[45] Furthermore, it has been difficult to readily adapt the World Bank's work on poverty, such as that contained in poverty assessments and public expenditure reviews, to provide insights into the impact of specific policy choices.

PSIA is likely to receive further impetus from a number of recent initiatives. While national authorities are expected to take the lead in this area, and to incorporate this analysis into their PRSPs, the World

[43]It could be argued that the very existence of these countervailing measures—which are motivated by the desire to offset the adverse effects of reforms—may be indicative of the fact that some qualitative, informal PSIA took place but was not reported in PRGF documents.

[44]For an assessment of three full and three interim PRSPs, including their treatment of the linkages between policies and poverty, see Caroline M. Robb and Alison M. Scott, 2001, "Reviewing Some Early Poverty Reduction Strategy Papers," IMF PDP 01/05, November (Washington: International Monetary Fund).

[45]For further details on the results of a stocktaking exercise of PSIA in 12 PRGF countries, see *Poverty Reduction Strategy Papers—Progress in Implementation*, September 14, 2001, available via Internet: http://www.imf.org/external/np/prsp/2001/091401.htm.

Bank is helping to build national capacity and deepen its analytical work in this area. A toolkit of different analytical techniques for conducting PSIA will be completed in 2002, and the Bank will seek to further disseminate information on best practices. In addition, the United Kingdom's Department for International Development (DFID) will be undertaking a pilot project on PSIA in six countries (Armenia, Honduras, Mozambique, Rwanda, Uganda, and Vietnam), which countries can henceforth use as a resource in program design. In April 2001, guidelines for JSAs of PRSPs were issued, which specify, among other criteria, that staff should assess PRSPs on the basis of how well they describe the impact on the poor of sectoral and structural policies. A concept note on PSIA prepared jointly with the Bank was issued to staff in May 2001, and several internal seminars have been held for PRGF mission chiefs. PRGF documents are expected to include a description of PSIA being carried out in the country, a summary of discussions with the authorities on the social impact of key reforms, and a description of how these affected the design of policies and countervailing measures.

IX The Potential Role of Capacity Building in Strengthening Program Design

The need for further capacity building to develop and assess macroeconomic frameworks, analyze the dimensions and profile of poverty, and conduct poverty and social impact analysis has been noted by a wide array of internal and external commentators. This capacity building is required for governments, academics, and CSOs in PRGF countries and is seen as a key element in building greater ownership for program design and policy choices. Consistent with this perception, many people from these groups called for greater assistance by donors, the World Bank, and the IMF in helping to develop this capacity. Among the options for the IMF are continuing and strengthening macroeconomic training for civil society officials and expanding that training to CSOs in countries with PRGF-supported programs. Finally, there is scope for additional internal training of IMF staff to assist them in broadening their own capacity to incorporate poverty and social impact analysis into PRGF-supported programs.

Technical Assistance

The IMF's contribution to capacity building in HIPCs and countries participating in the PRSP process is being addressed in a multilateral context. To maximize the impact of technical assistance (TA), the IMF is focusing and setting priorities for its TA on the institution's core macroeconomic and financial areas of responsibility, including public finance and administration, financial sector development, and development of sound statistical systems so as to support the member countries' reform efforts and development goals.[46] In particular, the IMF has supported a regional, country-based approach to TA for capacity building, including efforts to establish two new regional technical assistance centers scheduled to be opened in Africa in the summer of 2002. These centers have similar objectives: to focus TA squarely on capacity building; to increase the volume of TA to these countries; to raise the effectiveness of IMF TA projects through faster response, and strong ownership of the recipient governments; to increase positive externalities through sharing regionally based experiences; and to enhance accountability.

Although the IMF's TA policy has undergone a major reorientation in the past couple of years, additional gains can be made by focusing even more closely on setting priorities for the IMF's scarce TA resources to support both the goals of the IMF and the goals of the international community. Any additional resources for increased training of either government officials or CSO staff would need to be considered in the context of future budget discussions.[47]

Analytical Support

In parallel with supporting capacity building, the IMF's research agenda is conducting additional work on the formulation of macroeconomic policies that explicitly take into account some of the distinguishing characteristics of low-income countries. In particular, the IMF is devoting attention to identifying the determinants of successful macroeconomic policies at different levels of economic development. It is also giving special emphasis to understanding the nature of shocks that low-income countries are subjected to and what the appropriate macroeconomic policy response should be. Such studies might provide important information to the staff on how to tailor monetary, fiscal, and exchange rate policies to the needs of the countries that are most likely to access the PRGF. Another relevant research project relates to the question of optimal conditionality design in poverty reduction programs. One area being explored is how to formulate "incentive-compatible" aid and debt relief programs when the preferences of the donor community and those of recipient country governments are not perfectly aligned.

[46] The recent efforts of World Bank and IMF staff in collaboration with country authorities to design action plans to strengthen PEM capacity in 24 HIPCs are an important step.

[47] The External Relations Department has provided training for CSOs in the past, and the IMF Institute envisages some increase in training for government officials at the Joint Africa Institute.

X Conclusion

While a good start has been made in incorporating the key features of the PRGF into program design, there is scope for deeper implementation. The broad goals and quantitative macroeconomic frameworks of PRGF-supported programs are generally consistent with those of the supporting PRSPs. But the following points apply:

- In cases where I-PRSPs/PRSPs have been formulated in only very general terms, the PRGF-supported program, while consistent with the I-PRSP/PRSP, is necessarily linked to these documents only at that general level. To the extent that this is a transitional phenomenon reflecting the early stage of the PRSP process, tighter links between PRGF-supported programs and PRSPs can be expected to emerge as more countries gain experience with the PRSP process.
- In cases where the looseness of linkages between the I-PRSP/PRSP and the PRGF-supported program relates to slow changes in work practices or to capacity constraints (both have been suggested by some NGOs, donors, and authorities), there may be a role for greater technical assistance by the IMF and for more proactive outreach efforts by mission teams, resident representatives, and country authorities.

Streamlining of structural conditionality has proceeded very much in line with the intentions set out for the PRGF. Both in terms of concentrating conditionality in the IMF's core areas of expertise and reducing the total number of conditions, the initiative seems to have been implemented successfully thus far. On the other hand, some NGOs and donors have raised concerns that streamlining may have gone too far and that structural conditionality outside the IMF's core areas is no longer sufficiently covered. Therefore, staff also need to ensure that measures that are critical to the achievement of a program's macroeconomic objectives are included as conditionality. At the same time, there remains room for improvement in justifying non-core measures as critical to the program and in explaining the role of measures supported by the World Bank or other institutions' policy advice.

The composition of public spending is shifting toward pro-poor activities under PRGF-supported programs, and higher public spending is accommodated under these programs. The amount by which public spending has been targeted to increase has been determined in the context of the program's macroeconomic targets, which themselves are also important for growth and poverty reduction. Because of more generous grants, a lower interest burden, and higher revenues, countries have been able to afford larger levels of poverty-reducing spending than was possible under the ESAF-supported programs. Supported by the PRSP process, PRGF-supported programs are addressing in more detail the specific reforms needed to improve the efficiency and targeting of public expenditure, and to ensure that the poor are protected from the adverse effects of reforms in the short run.

The results of this review also suggest that progress has been uneven in other areas relevant to fiscal policy. In particular, improved reporting of poverty-reducing spending (in conjunction with a strengthening of PEM systems), greater emphasis on the efficiency and targeting of public spending, more widespread identification of contingent expenditures, systematic poverty and social impact analysis, and (where appropriate) continued emphasis on bolstering the revenue efforts in HIPCs would strengthen PRGF-supported programs. Several NGOs also indicated that systematic reporting of the dialogue between country authorities and IMF staff on fiscal policy choices would help to increase the transparency and ownership of the PRGF-supported program. Additional work is also required on monitoring outcomes and changes in social indicators.

There is scope for further improvement. In particular, there is still a perceived need to encourage deeper and broader discussion and analysis of the macroeconomic framework and the policies in PRGF-supported programs, as well as on various alternative policy paths and the trade-offs involved. Of particular importance is increasing the focus on the sources of growth in PRGF-supported pro-

grams. The documentation for these programs should be assessed with a view to laying out more clearly the program's role in the context of the overall poverty reduction strategy, the policy options that were considered, and the commitments that were made by authorities in the context of the program. Finally, the early experience with PRGF-supported programs has also highlighted the urgency of strengthening analytical and technical capacity at the national level. Progress in this regard will have a key bearing on areas such as the development of alternative policy scenarios or the preparation of poverty and social impact analysis. This finding highlights the need for a stronger focus by the international community on institutional capacity building in PRGF countries.

Table A.1. Revenues and Expenditures Under PRGF-Supported Programs[1]

(Unweighted averages; in percent of GDP)

Data	New PRGF				Extended PRGF				All			
	Sample Size	Pre-Program[2]	3-Year Program Average[3]	3-Year Program Average Minus Pre-Program	Sample Size	Pre-Program[2]	3-Year Program Average[4]	3-Year Program Average Minus Pre-Program	Sample Size	Pre-Program[2]	3-Year Program Average[5]	3-Year Program Average Minus Pre-Program
Total revenue and grants	15	20.6	22.0	1.5	16	20.0	20.7	0.7	31	20.3	21.4	1.1
Total revenue	15	18.5	19.5	1.0	16	15.7	16.3	0.6	31	17.1	17.9	0.8
Tax revenue	14	15.6	16.6	1.0	16	13.2	13.9	0.7	30	14.3	15.2	0.9
Taxes on income and profits	10	4.6	4.7	0.1	12	3.3	3.3	0.0	22	3.9	3.9	0.1
Social security contributions	3	6.0	5.6	–0.4	2	2.3	2.6	0.3	5	4.5	4.4	–0.1
Indirect taxes	10	9.2	10.2	1.0	12	9.1	10.1	1.0	22	9.2	10.1	1.0
Other taxes	2	1.3	1.3	0.1	8	0.4	0.4	0.0	10	0.6	0.6	0.0
Non-tax revenue	14	2.6	2.5	–0.1	16	2.1	2.0	–0.1	30	2.3	2.2	–0.1
Other	3	2.8	3.1	0.3	4	0.5	0.5	–0.1	7	1.5	1.6	0.1
Grants	15	2.1	2.5	0.5	16	4.3	4.4	0.1	31	3.2	3.5	0.3
Total expenditure and net lending	15	24.0	24.3	0.4	16	23.3	24.3	1.0	31	23.6	24.3	0.7
Current expenditure	15	17.6	17.3	–0.3	16	14.5	14.8	0.3	31	16.0	16.0	0.0
Goods and services	14	8.9	8.8	–0.1	16	7.8	7.8	0.0	30	8.3	8.3	–0.1
Wages and salaries	14	5.2	5.0	–0.2	16	5.2	5.3	0.1	30	5.2	5.1	0.0
Other goods and services	10	5.3	5.4	0.1	10	4.2	4.0	–0.2	20	4.7	4.7	0.0
Interest	15	2.0	1.8	–0.1	16	2.1	2.0	–0.1	31	2.1	1.9	–0.1
Transfers and subsidies	11	4.7	4.8	0.1	12	2.4	2.7	0.2	23	3.5	3.7	0.2
Other current spending	10	5.2	4.5	–0.7	9	5.0	5.3	0.4	19	5.1	4.9	–0.2
Capital expenditure and net lending	15	6.4	6.9	0.6	16	8.4	9.2	0.8	31	7.4	8.1	0.7
Other	3	0.3	0.6	0.3	6	1.0	1.2	0.2	9	0.7	0.8	0.1

Sources: National authorities; and IMF staff estimates.

[1]Excludes Moldova, which did not have an ESAF program; and Guinea-Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes.

[2]In most cases, the pre-PRGF year is 1999.

[3]For three countries, program averages are for one year and for one country, data are for two years.

[4]For two countries, program averages are for one year, and for five countries, data are for two years.

[5]For the sample as a whole, data refer to averages of two years for six countries, and of one year for five countries.

Table A.2. Fiscal Targets in Post-Stabilization and Other Countries[1]
(Unweighted averages; in percent of GDP)

	Under the PRGF[2]			Under the ESAF[3]		
	Pre-PRGF Year[4]	3-Year Program Average[5]	3-Year Program Average Minus Pre-PRGF	Pre-Program Year[6]	3-Year Program Average[7]	3-Year Program Average Minus Pre-Program
All						
Total revenue and grants	20.3	21.4	1.1	19.4	20.3	0.9
Revenue	17.1	17.9	0.8	16.3	17.3	1.0
Grants	3.2	3.5	0.3	3.1	3.0	–0.1
Total expenditure and net lending	23.6	24.4	0.8	22.8	23.2	0.3
Primary expenditure[8]	21.6	22.5	0.9	20.0	20.6	0.6
Overall balance (commitment basis)	–3.3	–3.0	0.3	–3.5	–2.9	0.5
Arrears	–0.1	–0.5	–0.4	–0.3	–0.4	–0.1
Overall balance (cash basis)	–3.5	–3.6	–0.1	–3.8	–3.4	0.4
Overall balance (cash basis) excluding grants	–6.7	–7.0	–0.4	–6.6	–6.2	0.4
Deficit financing	3.5	3.6	0.1	3.8	3.4	–0.5
Domestic	0.9	–0.2	–1.1	1.0	–0.2	–1.3
Bank	0.1	–0.6	–0.8	0.3	–0.7	–1.0
Non-Bank	0.2	–0.1	–0.4	0.3	–0.1	–0.3
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External[9]	2.6	3.7	1.1	2.8	3.7	0.8
Post-stabilization[10]						
Total revenue and grants	21.6	22.3	0.7	24.7	24.5	–0.2
Revenue	18.3	18.8	0.5	21.9	21.8	–0.1
Grants	3.3	3.5	0.2	2.8	2.7	–0.1
Total expenditure and net lending	22.0	23.0	1.0	24.3	24.1	–0.2
Primary expenditure[8]	20.4	21.6	1.2	22.4	22.3	–0.1
Overall balance (commitment basis)	–0.4	–0.7	–0.3	0.3	0.2	–0.1
Arrears	–0.4	–0.3	0.1	–0.1	–0.3	–0.2
Overall balance (cash basis)	–0.7	–1.0	–0.4	0.1	–0.2	–0.3
Overall balance (cash basis) excluding grants	–4.0	–4.5	–0.5	–2.7	–2.9	–0.2
Deficit financing	0.7	1.1	0.4	–0.1	0.0	0.2
Domestic	–1.5	–1.6	–0.1	–1.4	–1.6	–0.2
Bank	–1.6	–1.3	0.2	–1.6	–1.5	0.1
Non-Bank	–0.2	–0.4	–0.3	–0.6	–0.4	0.2
Privatization	0.4	0.6	0.1	0.3	0.1	–0.2
External[9]	2.2	2.7	0.5	1.3	1.6	0.4

Other countries						
Total revenue and grants	19.6	20.9	1.3	18.4	19.5	1.2
Revenue	16.5	17.4	0.9	15.3	16.5	1.2
Grants	3.2	3.5	0.3	3.1	3.1	0.0
Total expenditure and net lending	24.4	25.1	0.7	22.6	23.0	0.4
Primary expenditure[8]	22.1	22.9	0.8	19.4	20.2	0.8
Overall balance (commitment basis)	–4.8	–4.2	0.6	–4.2	–3.5	0.7
Arrears	0.0	–0.5	–0.6	–0.4	–0.4	–0.1
Overall balance (cash basis)	–4.8	–4.7	0.0	–4.6	–4.0	0.6
Overall balance (cash basis) excluding grants	–7.9	–8.3	–0.3	–7.5	–6.9	0.5
Deficit financing	4.8	4.7	–0.1	4.6	4.0	–0.6
Domestic	2.0	0.5	–1.5	1.5	0.0	–1.5
Bank	1.2	–0.2	–1.4	0.6	–0.5	–1.2
Non-Bank	0.5	0.1	–0.4	0.4	0.0	–0.4
Privatization	0.4	0.6	0.1	0.2	0.3	0.1
External[9]	2.8	4.2	1.4	3.1	4.1	0.9

Sources: National authorities; and IMF staff estimates.

[1]Excludes Moldova, which did not have an ESAF program; and Guinea-Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.

[2]Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.

[3]Refers to targets set out in the last annual ESAF arrangement.

[4]In most cases, the pre-PRGF year is 1999.

[5]For the sample as a whole, data refer to averages for two years for six countries, and for one year for five countries.

[6]Refers to the year before the last annual ESAF arrangement. On average, it refers to 1997.

[7]For the sample as whole, data refer to averages for two years for three countries, and for one year for four countries.

[8]Total expenditure and net lending minus interest payments.

[9]Includes financing not identified at the time documents were submitted to the Executive Board.

[10]Countries divided into post-stabilization countries and other countries based on initial deficit, inflation, and economic growth. Under the PRGF, post-stabilization countries have initial deficit less than 2%, inflation less than 10% in 1999 and 2000–02, and positive economic growth. There are 10 post-stabilization countries and 21 other countries. Under the ESAF, post-stabilization countries have initial deficit less than 2%, inflation less than 10% in the pre-program period and over the three-year program, and positive economic growth. There are 5 post-stabilization countries and 26 other countries.

Table A.3. Fiscal Targets: Decision Point HIPCs and Other Countries Under PRGF- and ESAF-Supported Programs[1]

(Unweighted averages; in percent of GDP)

	Under the PRGF[2]			Under the ESAF[3]		
	Pre-PRGF Year[4]	3-Year Program Average[5]	3-Year Program Average Minus Pre-PRGF	Pre-Program Year[6]	3-Year Program Average[7]	3-Year Program Average Minus Pre-Program
Decision Point HIPCs						
Total revenue and grants	19.6	20.4	0.8	18.6	19.4	0.8
Revenue	15.0	15.7	0.7	14.5	15.5	1.0
Grants	4.5	4.7	0.1	4.1	3.9	–0.2
Total expenditure and net lending	22.0	23.1	1.1	20.8	21.6	0.8
Primary expenditure[8]	20.1	21.4	1.3	18.3	19.4	1.1
Overall balance (commitment basis)	–2.4	–2.7	–0.3	–2.3	–2.3	0.0
Arrears	–0.3	–0.6	–0.3	–0.6	–0.7	0.0
Overall balance (cash basis)	–2.8	–3.4	–0.6	–3.0	–3.0	0.0
Overall balance (cash basis) excluding grants	–7.3	–8.1	–0.7	–7.0	–6.9	0.1
Deficit financing	2.9	3.4	0.5	3.0	3.0	0.0
Domestic	0.3	–0.8	–1.0	0.2	–0.8	–1.0
Bank	–0.1	–0.6	–0.5	0.0	–0.9	–1.0
Non-Bank	0.1	–0.4	–0.5	0.1	–0.1	–0.2
Privatization	0.4	0.4	0.0	0.2	0.2	0.0
External[9]	2.6	4.2	1.6	2.7	3.7	1.0
Other PRGFs						
Total revenue and grants	21.3	22.7	1.4	20.5	21.6	1.1
Revenue	19.9	20.8	1.0	19.1	20.1	1.0
Grants	1.4	1.9	0.5	1.4	1.5	0.1
Total expenditure and net lending	25.9	26.2	0.4	25.6	25.3	–0.3
Primary expenditure[8]	23.6	24.1	0.5	22.9	22.7	–0.2
Overall balance (commitment basis)	–4.6	–3.5	1.1	–5.1	–3.8	1.3
Arrears	0.2	–0.3	–0.4	0.1	–0.1	–0.2
Overall balance (cash basis)	–4.4	–3.8	0.6	–5.0	–4.0	1.0
Overall balance (cash basis) excluding grants	–5.8	–5.6	0.1	–6.0	–5.1	0.8
Deficit financing	4.4	3.8	–0.6	5.0	3.9	–1.1
Domestic	1.8	0.7	–1.1	2.2	0.6	–1.6
Bank	0.6	–0.6	–1.2	0.9	–0.1	–1.0
Non-Bank	0.4	0.3	–0.2	0.7	0.1	–0.6
Privatization	0.4	0.7	0.3	0.2	0.4	0.2
External[9]	2.6	3.1	0.5	2.8	3.4	0.6

Sources: National authorities; and IMF staff estimates.

[1]Excludes Moldova, which did not have an ESAF program; and Guinea-Bissau, Lesotho, and Sierra Leone, where the program data for a number of fiscal variables are three or more standard deviations away from the mean. The components may not sum to the total because of differing sample sizes. The overall balance (cash basis) includes statistical discrepancies.

[2]Refers to program targets set out in the first PRGF program document discussed by the Executive Board after July 1, 2000.

[3]Refers to targets set out in the last annual ESAF arrangement.

[4]In most cases, the pre-PRGF year is 1999.

[5]For the sample as a whole, data refer to averages for two years for six countries, and for one year for five countries.

[6]Refers to the year before the last annual ESAF arrangement. On average, it refers to 1997.

[7]For the sample as whole, data refer to averages for two years for three countries, and for one year for four countries.

[8]Total expenditure and net lending minus interest payments.

[9]Includes financing not identified at the time documents were submitted to the Board.

Appendix II Assessment of Key Features by Authorities in Countries with PRGF Arrangements

A survey of key counterparts among national authorities in the countries included in the sample for the review of key features of the PRGF reveals a high degree of consensus that the key features are being implemented in PRGF-supported programs but suggests there is room for further progress (Appendix Table A.4). Officials from nearly half of the PRGF countries included in the Staff Analyses sample (17 of 35) responded to the survey, with most responding to all questions. Overall, the assessment of PRGF-country authorities on progress toward the goal of the PRGF is

Table A.4. Authorities' Responses to Questionnaire on Key Aspects of PRGF-Supported Programs
(Responses are shown in percent of total responses received)

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. PRGF-supported program is consistent with the government's underlying poverty reduction strategy [as embodied in the I-PRSP/PRSP].	12.5	75.0	12.5	—	—
2. PRGF-supported program allowed increased opportunity to affect the design of the program relative to past programs.	5.9	52.9	35.3	5.9	—
3. PRGF-supported program is consistent with the economic goals of the government and other national institutions.	11.8	70.6	11.8	5.9	—
4. PRGF-supported program places sufficient emphasis on growth as a means to alleviate poverty.	17.6	64.7	17.6	—	—
5. PRGF-supported program places more emphasis on growth as a means to alleviate poverty compared with IMF programs in the past.	47.1	35.3	11.8	5.9	—
6. Under PRGF-supported program, budgets have become more poverty-oriented.	11.8	82.4	5.9	—	—
7. PRGF-supported program has shown more flexibility in accommodating social spending.	29.4	35.3	17.6	11.8	5.9
8. PRGF-supported program has shown more flexibility in accommodating availability of increased external financing.	11.8	52.9	11.8	17.6	5.9
9. Structural conditionality included in PRGF-supported program is more focused on the IMF's core areas of expertise.	18.8	68.8	12.5	—	—
10. Streamlining of conditionality under PRGF-supported program has resulted in improved prospects of implementation.	6.3	68.8	31.3	—	—
11. PRGF-supported program incorporates greater emphasis on improved management and accountability of public resources.	35.3	58.8	5.9	—	—
12. Improved coordination between IMF and World Bank staff has helped improve the design of poverty reduction efforts under the PRGF-supported program.	35.3	58.8	5.9	—	—

positive—a majority agree there has been progress on all aspects of the key features of the PRGF included among the survey questions. Agreement is strongest on progress in consistency of the PRGF-supported programs with the PRSP, more poverty-oriented budgets, more focused conditionality, greater emphasis on improved public expenditure management, and improved coordination with the World Bank. Agreement is less strong (but still accounting for a majority of all responses) for fiscal flexibility and greater opportunity for authorities to affect program design. Disagreement (as opposed to a neutral response) is limited to only 5 of the 12 aspects, with multiple responses disagreeing only on the 2 fiscal flexibility questions (accounting for less than one-fourth of responses in each case).

Appendix III Summary of Key Features of PRGF-Supported Programs

1. **Broad participation and greater ownership**
   - The main elements of the PRGF are drawn from the country's PRSP.
   - PRSPs will be produced in a transparent process with broad participation.
   - Country authorities will produce the PRSPs.
   - Where relevant, joint staff assessments/staff reports will highlight flexibility in accepting country choices.
2. **Embedding of the PRGF in the overall strategy for growth and poverty reduction**
   - This feature demonstrates how macroeconomic and other policies have been influenced by growth and poverty objectives.
   - It highlights aspects of the PRGF program that promote private sector development.
   - The PRGF contribution to the strategy should focus on areas within the IMF's area of expertise and responsibility.
3. **Budgets that are more pro-poor and pro-growth**
   - This feature reorients government spending toward activities that benefit the poor.
   - It improves efficiency and targeting of spending in key sectors relevant to growth and poverty reduction.
   - It stresses tax reforms that simultaneously improve efficiency and equity.
   - It improves data and monitoring to track expenditures.
4. **Appropriate flexibility in fiscal targets**
   - This feature presents more normative macro-projections to signal financing needs.
   - Where warranted, it seeks commitments of higher aid flows and builds into the program.
   - It uses the PRSP to identify contingent expenditures that could be added if more aid were forthcoming.
   - It indicates how fiscal targets would be modified in the event of key shocks.
5. **More selective structural conditionality**
   - This feature limits conditionality to key measures, central to the success of the strategy.
   - It confines IMF conditionality to measures in the IMF's domain; exceptions must be justified.
6. **Emphasis on measures to improve public resource management/accountability**
   - Fiscal policies and objectives should be open to public debate.
   - Such measures develop transparent monitoring systems to improve efficient delivery of public services.
   - For HIPCs, they include specific mechanisms for monitoring use of debt relief.
   - This feature considers selective conditionality on fiscal governance measures.
7. **Social impact analysis of major macroeconomic adjustments and structural reforms**
   - This analysis demonstrates that distributional effects of substantial macro-adjustments or structural reforms have been considered.
   - It highlights countervailing measures to offset temporary adverse effects on the poor.
   - The World Bank should lead if technical impact analysis is needed, but PRGF documents should indicate what work was done and how it influenced policies.

Appendix IV PRGF and ESAF Staff Reports and Other Documents for the Review

The staff analyses draw upon staff reports, letters of intent/memoranda of economic and financial policies, (Interim) Poverty Reduction Strategy Papers (PRSPs/I-PRSPs), and joint staff assessments of PRSPs/I-PRSPs for new PRGF arrangements approved between July 1, 2000, and September 30, 2001, as well as older PRGF arrangements, which have had Board discussion of a review supported by a full PRSP, or at least two reviews, or new annual arrangements during the same period.

This sample includes arrangements and PRSP processes at a variety of stages. Nineteen countries in the sample had new, three-year PRGF arrangements approved. An additional 16 countries had existing ESAF arrangements that had been transformed into a PRGF, under which at least two reviews had been concluded during this 15-month period or a review had been supported by a full PRSP. A shift to an earlier date would pick up essentially pre-PRGF requests and reviews but have little effect on the sample size. Only three new PRGF arrangements were approved in the first half of 2000; two of these are incorporated in the sample on the basis of subsequent reviews. Only one new PRGF-supported program, São Tomé and Príncipe, could be added by a shift to an earlier date (discussions were completed for the new program on mission in November 1999, but the Board only approved it in April 2000).

Table A.5. Sample of PRGF Arrangements Approved or Reviewed from July 1, 2000 through September 30, 2001[1]

New PRGF Arrangements July 1, 2000–September 30, 2001: Country	Date Approved	PRGF Arrangements Approved Prior to July 1, 2000[2]
1. Armenia	May 23, 2001	1. Albania
2. Azerbaijan	July 5, 2001	2. Bolivia
3. Benin	July 17, 2000	3. Burkina Faso
4. Cameroon	December 21, 2000	4. Cambodia
5. Ethiopia	March 22, 2001	5. Chad
6. Georgia	January 12, 2001	6. Gambia, The
7. Guinea	May 2, 2001	7. Ghana
8. Guinea-Bissau	December 15, 2000	8. Mali
9. Kenya	August 4, 2000	9. Mauritania
10. Lao PDR	April 25, 2000	10. Mozambique
11. Lesotho	March 9, 2001	11. Rwanda
12. Macedonia, FYR	November 29, 2000	12. Senegal
13. Madagascar	March 1, 2000	13. Tajikistan
14. Malawi	December 21, 2000	14. Tanzania
15. Moldova	December 15, 2000	15. Uganda
16. Mongolia	September 28, 2001	16. Zambia
17. Niger	December 14, 2000	
18. Sierra Leone	September 20, 2001	
19. Vietnam	April 13, 2001	

[1]Countries with arrangements supporting programs based on full PRSPs are shown in bold type.

[2]Includes PRGF arrangements approved prior to July 1, 2000, with a review supported by a full PRSP, or two or more program reviews concluded, or new annual arrangements approved July 1, 2000–September 30, 2001.

Similarly, the stages of the PRSP process vary across countries and reviews. Four reviews (all from 2000) precede the finalization of the I-PRSP, an additional 29 requests or reviews were presented to the Board together with the I-PRSP. Twenty requests or reviews were concluded after the endorsement of the I-PRSP but before the endorsement of the PRSP, 4 reviews were presented to the Board together with the full PRSP, and 5 additional reviews were concluded by the Board after the full PRSP had been endorsed. The stage of the PRGF arrangement and the PRSP process are often out of synchronization, which further complicates the assessment of these programs and their relationship with the PRSP. In contrast to the steady state envisaged in *Poverty Reduction and Growth Facility—Operational Issues* in which new PRSPs would ideally be accompanied by new PRGF-supported programs, none of the six full PRSPs covered in this sample is associated with a new arrangement approved since July 1, 2000.

The ESAF staff reports included in the study were those that provided the last request for an annual arrangement under the ESAF. Most of these documents were issued to the Executive Board in 1999.

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